

Denver Health and Hospital Authority

Independent Auditor's Reports and Financial Statements

December 31, 2018 and 2017

Denver Health and Hospital Authority

December 31, 2018 and 2017

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited).....	5
Financial Statements	
Statements of Net Position.....	22
Balance Sheets – Denver Health Medical Plan, Inc.....	24
Balance Sheets – DHHA Southwest Clinic, Inc.	25
Statements of Revenues, Expenses and Changes in Net Position.....	26
Statements of Revenues, Expenses and Changes in Net Position – Denver Health Medical Plan, Inc.	27
Statements of Operations – DHHA Southwest Clinic, Inc.	28
Statements of Cash Flows.....	30
Notes to Financial Statements.....	33
Required Supplementary Information	
Schedule of the Authority's Proportionate Share of the Net Pension Liability – DERP	95
Schedule of the Authority's Pension Contributions – DERP	96
Schedule of the Authority's Proportionate Share of the Net OPEB Liability – DERP	97
Schedule of the Authority's OPEB Contributions – DERP	98
Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios – The Supplement Plan.....	99
Supplementary Information	
Consolidating Schedule – Statement of Net Position Information	104
Consolidating Schedule – Revenue and Expense Information	108
Supplementary Budget to Actual Information – Year Ended December 31, 2018.....	110
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	111

THIS PAGE LEFT BLANK INTENTIONALLY

Independent Auditor's Report

Board of Directors
Denver Health and Hospital Authority
Denver, Colorado

Report on Financial Statements

We have audited the accompanying financial statements of Denver Health and Hospital Authority (the Authority) and its aggregate discretely presented component units as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Denver Health Medical Plan, Inc. and DHHA Southwest Clinic, Inc., discretely presented component units, and DHHA Pavilion M, Inc., 601 Broadway, Inc., and 550 Acoma Inc., which are blended component units, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors
Denver Health and Hospital Authority

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Denver Health and Hospital Authority and its aggregate discretely presented component units as of December 31, 2018 and 2017 and the respective changes in financial position and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 12 to the financial statements, during the year ended December 31, 2018, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, pension and other postemployment benefits information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The consolidating statements of net position, consolidating revenues and expenses information and the budget to actual information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Board of Directors
Denver Health and Hospital Authority

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BKD, LLP

Denver, Colorado
March 20, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

This discussion and analysis of the financial performance of Denver Health and Hospital Authority (the Authority) provides an overall review of the Authority's financial activities and balances as of and for the years ended December 31, 2018 and 2017.

Management's Discussion and Analysis is designed to provide a comparative discussion on significant activities, resulting changes, and currently known facts; therefore, this discussion should be read in conjunction with the Authority's financial statements.

2018 Highlights

The Authority began work on two major construction projects related to the facilities master plan in 2018. The first project was the Outpatient Medical Center (OMC) and the second was the 550 Acoma parking garage. The City and County of Denver's General Obligation Bond will provide \$75.0 million of funding for the OMC. The Authority plans on funding the remaining construction costs through operations. The Authority issued approximately \$40.8 million of long term debt to fund the parking garage. The financing required a creation of a separate 501(c)3 entity, known as "550 Acoma Inc.". The application for 501(c)3 status for this entity is in process. 550 Acoma Inc. is shown as a blended component unit.

Net patient service revenue was \$99.0 million, or 18.2% higher than 2017 and \$17.1 million, or 2.7% higher than budget. The increase in net patient service revenue was driven by a 6.1% increase in gross patient revenue resulting from increased patient care services, and a higher than budgeted realization rate (net patient service revenue divided by gross charges). The realization rate increase was driven by successful revenue cycle initiatives achieved through the Authority's "Operational Excellence" program. The rate increased from 28.3% to 29.8% due to these efforts. For purposes of this calculation, DH Medicaid Choice managed care numbers are not included in the percentages (see below). With respect to increased services, notable increases included surgical cases increase of 1,477 additional cases, or 12.6%, and outpatient primary and specialty encounters increase of 46,700 encounters, or 6.1%. Emergency department (ED) encounters also increased by 1.4% to 84,300.

The Denver Health Medicaid Choice (DH Medicaid Choice) membership plan contract, effective September 1, 2018, moved from the Authority's main financial statements to its component unit Denver Health Medical Plan (the Plan), due to State requirements imposed in order to continue to operate DH Medicaid choice under the State's new Regional Accountable Entity (RAE) program. Capitation Revenue, Managed Care outside provider claims expense and personnel and administrative expenses from this contract are reflected in the Plan's financial statements for the September – December 2019 period. The capitation payment from the Plan to the Authority is included in net patient service revenue; this change contributed \$40.5 million of the year over year net patient service revenue increase. (This amount is excluded from the realization rate calculations reflected above, for comparability). The DH Medicaid Choice decreased in membership in 2018 to 77,446, a 10.6% decrease. This drove decreased member months in the DH Medicaid Choice plan of 2,396 and, coupled with a rate decrease that occurred effective July 1, 2018, resulted in a decrease to operating income of approximately \$14.0 million.

The Authority recorded an increase in Medicaid disproportionate share (DSH) and other safety net reimbursement compared to 2017 of \$34.2 million, or 29.8%. The revenue was approximately \$29.9 million, or 25.1% above budget.

DSH revenue, and another supplemental payment source, Upper Payment Limit (UPL) are paid to the Authority through the State of Colorado Hospital Provider Fee program (HPF). The HPF is a State of Colorado fee approved by the Colorado General Assembly in 2009. Hospitals pay the fee to the state, and

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2018 and 2017

the fee revenue is matched with federal funding related to the DSH and UPL sources. Calculations of fees and payments in the HPF program are based on prior year data.

In 2017, the Colorado General Assembly enacted legislation that moved HPF to a state enterprise fund, the Colorado Hospital Accountability and Sustainability Enterprise (CHASE) due to Colorado Taxpayer Bill of Rights (TABOR) issues with the previous accounting for the funds. CHASE is exempt from TABOR limits.

The Authority had an increase in HPF revenue of \$28.7 million compared to 2017. In 2018, the Authority received additional guidance and communication from the State of Colorado and learned of an interpretation change from the Center for Medicare and Medicaid services (CMS) that allowed for an elimination of the Hospital Specific DSH Cap (HSDC) reserve of \$20.9 million. This reserve was for audit of the HSDC calculations under which the DSH payment cannot exceed the cost of uninsured care plus Medicaid shortfall or surplus. The Authority still maintains a reserve calculation for open years and will adjust as those years are audited. Additionally, the base HPF revenue from Colorado Department of Health Care Policy and Financing (HCPF) increased \$9.4 million from 2017. This includes an increase of \$3.6 million in the Hospital Quality Incentive Payment, which is governed by CHASE, due to improved performance on quality measures such as Cesarean Section rates and ED processes, by the Authority.

There was an increase Physician certification revenue of \$5.8 million compared to 2017. In 2017 there was a non-recurring recoupment that lowered the revenue by \$6.0 million. Additional changes in the Medicaid DSH and other safety net reimbursement line included an increase in Ambulance UPL of \$1.5 million, and, and decreases in Outstationing and Colorado State Primary care funds of \$1.5 million and \$358,000, respectively.

City of Denver purchased services revenue is related to contractual obligations for the Authority pursuant to the Operating Agreement with the City and County of Denver (the City). This revenue was \$1.1 million, or 4.3% below budget but approximately \$412,000 or 1.7% above the prior year. Revenue for this line item is primarily based on reimbursement of direct cost. The areas of lower than anticipated expenditures were correctional care and public health.

Salary and benefit expense is the most significant component of the Authority's expenses. This expense increased approximately \$19.0 million, or 3.0%, and was \$499,000 below budget. Benefit expense increased approximately \$7.3 million or 5.9% and was primarily in health insurance and pension expense. Full-time equivalent (FTE) personnel increased 0.9% over the prior year. Normal wage increases for merit and market adjustments as well as increased benefit expense contributed to the increase in cost.

Contracted services and nonmedical supplies decreased approximately \$3.0 million, or 1.5% compared to 2017, but was \$2.8 million, or 1.5% above budget. The decrease in expense is primarily driven by lower support services expense, decreased minor furniture needs, reduced usage of computer repairs & maintenance agreements and other cost decreases driven by expense management initiatives. This is partially offset by increased provider fee expense and agency labor costs due to increased usage driven by staff turnover.

Medical supplies and pharmaceuticals increased approximately \$7.1 million, or 5.7% year over year. This increase is related to an increase in pharmaceutical volumes.

Depreciation and amortization expense increased from 2017 by approximately \$10.0 million or 22.4%, driven by accelerated depreciation expense for the 660 Bannock and 550 Acoma buildings. This also led to a negative budget variance of \$5.0 million, or 10.2%.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

The investment market declined in 2018 compared to 2017, resulting in a net decrease in fair value of investments of \$14.4 million compared to a net increase of \$9.3 million in 2017. The Authority's investment policy provides that investments are generally held to maturity. The realized interest income increased approximately \$1.8 million over the prior year. Cash and cash equivalents, including restricted, and short term investments increased approximately \$1.0 million, or 2.15%, and long-term and board-designated investments increased approximately \$23.9 million, or 7.9% over the prior year. The main driver for this is an increase in safety net cash receipts and Meaningful Use. After accounting for operating expenses, cash from operations increased approximately \$33.0 million, or 54.5%.

Contributions restricted for capital assets in 2018 totaled \$25.1 million, including \$17.4 million from the City's General Obligation Bond for the OMC. Additionally, as part of the program support agreement the Authority received \$6.1 million for construction and expansion of the ACUTE unit in Pavilion M. The authority also received \$1.8 million from the City to support the construction of Federico F. Pena Southwest Family Health Center. Lastly, capital contributions include the City's contribution to debt service for the Park Hill clinic of \$151,000. The remaining balance is made up of smaller contributions.

During 2018, the Authority adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Prior year comparative information contained herein has not been restated for the adoption of GASB 75.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements, which consist of a business-type activity, and includes blended component units, and notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The *statement of net position* presents information on the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these items as net position. Over time, increases or decreases in net position may indicate whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the Authority's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the year.

Financial Analysis and Results of Operations

Changes to net position over time may serve as a useful indicator of the Authority's financial position. At December 31, 2018, the Authority's total net position increased by approximately \$49.1 million from 2017, or 13.2%. The following table summarizes total assets, deferred outflows of resources, total liabilities, deferred inflows of resources and net position at December 31:

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2018 and 2017

	Net Position		
	2018	2017	2016
Current and noncurrent assets	\$ 596,214,135	\$ 541,596,504	\$ 540,638,905
Capital assets	517,011,913	501,284,551	472,662,450
Total assets	1,113,226,048	1,042,881,055	1,013,301,355
Deferred outflows	35,477,186	42,501,994	51,585,290
Total assets and deferred outflows of resources	<u>\$ 1,148,703,234</u>	<u>\$ 1,085,383,049</u>	<u>\$ 1,064,886,645</u>
Current liabilities	\$ 175,638,297	\$ 175,185,004	\$ 160,901,368
Other long-term liabilities	178,726,614	209,586,602	184,450,637
Long-term debt outstanding	354,814,921	322,820,992	354,242,014
Total liabilities	709,179,832	707,592,598	699,594,019
Deferred inflows of resources	18,482,845	5,807,121	7,428,789
Net investment in capital assets	171,472,396	160,517,460	111,590,723
Unrestricted	249,568,161	211,465,870	246,273,114
Total net position	<u>421,040,557</u>	<u>371,983,330</u>	<u>357,863,837</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,148,703,234</u>	<u>\$ 1,085,383,049</u>	<u>\$ 1,064,886,645</u>

Cash and cash equivalents, including restricted, and short term investments increased approximately \$1.0 million, or 2.15%, and long-term and board-designated investments increased approximately \$23.9 million, or 7.9% over the prior year. The main driver for this is an increase in safety net cash receipts and Meaningful Use. After accounting for operating expenses, cash from operations increased approximately \$33.0 million, or 54.5%.

Patient Accounts Receivable

Patient accounts receivable (AR), net of contractual allowances decreased by approximately \$10.4 million in 2018, or 16.3%. Cash collections from net patient service revenue increased by approximately \$80.3 million, or 14.8%, over the prior year. The increase in collections is primarily due to an increased realization rate as a result of the Revenue Cycle Operational Excellence initiative.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2018 and 2017

Due from Governmental Entities

Due from governmental agencies increased by \$1.6 million, or 6.0%, compared to the prior year balance, primarily related to the HPF additional distribution receivable for the 2017-2018 State Fiscal Year (SFY), of \$4.6 million.

Other Receivables

Other Receivables decreased by \$1.5 million, or 7.3%, compared to the prior year balance. This change is primarily related to payments for obstetrics deliveries for the DH Medicaid Choice plan moving from the Authority to the Plan.

Due from and Investments in Discretely Presented Component Units

Due from and investments in discretely presented component units increased approximately \$3.6 million, or 91.9% primarily due to accrued capitation and a capitation adjustment recorded related to an adjustment in the risk-score payment for the Affordable Care Act (ACA) Exchange population.

Inventories

Inventories increased approximately \$915,000, or 8.7%, primarily due to additional inventory in supplies and Pharmacy identified in the year-end inventory.

Prepaid expenses and other assets

Prepaid expenses and other assets increased approximately \$4.5 million, or 48.9%, primarily due to the timing of new software maintenance agreements and licenses.

Estimated Third-party Payor Settlement Receivables

Estimated third-party payor receivables are comprised of receivables for Medicare and Medicaid cost report settlements and receivables for outstationing revenue. These receivables decreased approximately \$1.5 million, or 27.0%, compared to 2017, primarily due to receipt of outstationing payments of \$2.2 million offset by accruals for Medicare and outstationing of approximately \$837,000.

Restricted Investments

Restricted investments increased approximately \$31.5 million, or 145.5%, during 2018 due to net proceeds of the 550 Acoma Inc. debt issuance of \$40.8 million and \$8.6 million from the City for the OMC. This is offset by construction draws totaling \$17.9 million.

Capital Assets

Capital assets, net of depreciation, increased approximately \$15.7 million over the prior year. Land increased approximately \$10.0 million primarily due to the purchase of land at 530 Acoma and 55 West 5th Avenue. Additions totaled approximately \$69.3 million, compared to approximately \$72.9 million in 2017. The largest capital addition was the construction on the OMC building totaling approximately \$18.5 million in 2018. The building is scheduled to open in the second quarter of 2020. Additionally, the Authority incurred \$14.0 million in construction costs related to the 500 Quivas remodel for the Office of the Medical Examiner (OME). The OME project was completed in April 2018, and is funded by the City and County of Denver but is in an Authority-owned building and the construction was managed by the

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

Authority. Additional renovation projects include the Pavilion M Psychiatric remodel of \$4.5 million, the remainder of the Pavilion M 3rd floor remodel for the ACUTE eating disorder program of \$4.1 million (total project was \$10.4 million), and the Pavilion A 5th floor Adult Psychiatric remodel of \$3.1 million. Equipment purchases totaled approximately \$14.8 million. This increase is offset by disposals of \$3.9 million due to the replacement of equipment. Depreciation expense for the year was approximately \$54.5 million. Listed below is a summary of capital assets, net of accumulated depreciation at December 31, 2018 and 2017:

	December 31,	
	2018	2017
Land	\$ 34,345,787	\$ 24,361,955
Buildings and improvements	369,366,791	366,690,605
Equipment and software	71,734,486	76,502,916
Construction in process	41,564,849	33,729,075
Total	<u>\$ 517,011,913</u>	<u>\$ 501,284,551</u>

Long-term and Board-designated Investments

Long-term and board-designated investments in aggregate increased approximately \$23.9 million, or 7.9% over the prior year. The increase in patient cash receipts by operating activities during 2018 resulted in more cash available for investment.

Other Liabilities

Accounts payable and accrued expenses increased approximately \$17.2 million, or 34.2%, due to an accrual of \$15.9 million, primarily for SFY 2017-18, for a potential Medical Loss ratio (MLR) recoupment on the DH Medicaid Choice plan. Under the Medicaid Loss ratio calculation, if medical cost is less than 85% of premiums received by the State, the difference must be remitted to the State. The Authority is currently challenging the calculation for MLR for SFY 2017-18; however as a favorable determination has not yet been officially made, the Authority has recorded the liability.

Accrued wages decreased approximately \$12.1 million, or 32.4%, primarily driven by the timing of a pay date on the last day of the year.

Unearned revenue represents the payments received in advance for the supplemental payments received under the HPF program. Unearned revenue increased \$2.3 million because the monthly payments received in advance were more in 2018 compared to 2017.

Accrued claims liability represents the Incurred But Not Reported claims liability (IBNR) for DH Medicaid Choice. The liability is approximately \$8.8 million, or 80.3%, lower than the prior year due to the contract moving to the Plan effective September 1 2018.

The long-term portion of liability for estimated third-party settlements decreased approximately \$22.2 million. Approximately \$20.9 million of the decrease is related to a reduction in the accrual for potential recoupment of DSH revenue based on an audit of the HSDC as discussed in a previous section. Additionally there was a Medicaid cost report payment for \$1.4 million.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

Net pension liability represents the actuarially estimated cost of the Authority's pension plan, the Denver Employees Retirement Plan (DERP). The net liability is the amount owed for the pension benefit above the currently invested assets. This liability decreased approximately \$14.4 million, or 12.0%, mainly driven by the change in proportionate share of the multi-payor plan. The deferred outflows of resources related to pension benefits decreased \$5.7 million. The deferred inflows of resources related to pension benefits increased \$11.9 million. The net impact to the statement of changes in net position was a decrease in expense of \$3.2 million. The decrease is driven by changes in the proportionate share of the multi-payor plan.

Postemployment benefit liability or Other post-employment benefits (OPEB) liability represents the actuarially estimated cost of the Authority's provision of postretirement health benefits for both the postemployment benefit included in the DERP plan and a supplemental plan for certain employees hired in 2001 or after. This liability includes a restatement of OPEB and is in accordance with Governmental Accounting Standards Board Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (GASB 75). As a result, the fiscal year ending December 31, 2018 is the first time DHHA has reported under the new standard.

The net liability for the DERP OPEB plan is newly recorded due to the required change in accounting standard. This net liability is also a proportionate share of the multi-payor plan and is approximately \$5.6 million. The deferred inflows for the DERP OPEB plan is approximately \$781,000. The deferred outflows for DERP OPEB is \$290,000.

The Supplemental OPEB plan has a net liability of approximately \$17.5 million. The liability is funded at the time of an employee's retirement by paying a third-party administrator. The deferred outflows for the Supplemental OPEB plan is approximately \$1.2 million.

Debt

Bonds and notes payable, program support payable and capital leases payable (current and long-term), excluding the deferred loss on refunding, increased by approximately \$26.8 million due to the issuance of the 550 Acoma Inc. notes payable for approximately \$40.8 million. This is offset by the principal payments of bonds and notes payable during 2018 of approximately \$23.0 million.

Total Assets, Liabilities and Net Position

Overall, current and noncurrent assets, not including capital assets, increased approximately \$54.6 million from December 31, 2017 to December 31, 2018, primarily due to the an increase in patient cash receipts and notes payable proceeds. This is offset by a decrease in patient receivables.

Total liabilities and deferred inflows of resources as of December 31, 2018 increased approximately \$14.3 million compared to December 31, 2017. Primary drivers of this increase were the increase in notes payable of \$40.3 million, offset by a decrease in third-party settlements of approximately \$22.2 million.

At December 31, 2018, the Authority's total net position increased by approximately \$49.1 million from 2017, or 13.2%, which was comprised of an operating gain of approximately \$56.3 million, nonoperating net expense of approximately \$18.7 million, and contributed capital of approximately \$25.1 million. Additionally, there was a \$13.6 million decrease in net position related to a change in accounting standard.

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2018 and 2017

The following table compares 2018, 2017 and 2016 revenues and expenses and shows the resulting changes in net position:

	Changes in Net Position		
	2018	2017	2016
Operating revenues			
Net patient service revenue	\$ 644,397,553	\$ 545,380,959	\$ 505,649,332
Capitation earned net of reinsurance	136,653,112	218,010,773	200,897,158
Medicaid disproportionate share and other safety net reimbursement	148,941,660	114,752,531	114,226,738
City of Denver payment for patient care services	30,777,300	30,777,300	30,777,300
Federal and state grants	64,114,406	66,049,764	61,762,927
City and County of Denver purchased services	25,188,290	24,776,739	23,111,964
Poison and drug center contracts	25,349,639	22,852,467	22,109,647
Other operating revenue	44,032,947	34,286,943	31,145,980
Total operating revenues	1,119,454,907	1,056,887,476	989,681,046
Operating expenses			
Salaries and benefits	647,029,411	628,026,525	595,508,941
Contracted services and nonmedical supplies	190,460,688	193,422,000	207,393,321
Medical supplies and pharmaceuticals	132,390,682	125,253,288	107,970,210
Managed care outside provider claims	38,830,457	65,258,014	49,865,526
Depreciation and amortization	54,487,664	44,517,680	41,773,814
Total operating expenses	1,063,198,902	1,056,477,507	1,002,511,812
Operating income (loss)	56,256,005	409,969	(12,830,766)
Nonoperating revenues (expenses)			
Increase in equity in joint venture	2,800	124,000	13,000
Bond issuance costs	(588,564)	(682,046)	-
Distribution from discretely presented component unit	-	-	5,000,000
Interest income	11,470,391	9,633,043	8,776,396
Interest expense	(15,200,176)	(14,355,713)	(15,348,615)
Gain (loss) on forgiveness of note payable/receivable	-	8,135,483	-
Net increase (decrease) in fair value of investments	(14,424,574)	9,287,858	4,548,798
Gain (loss) on disposition of capital assets	10,572	50,857	177,446
Total nonoperating revenues (expenses)	(18,729,551)	12,193,482	3,167,025
Income (loss) before capital contributions	37,526,454	12,603,451	(9,663,741)
Contributions restricted for capital assets	25,115,272	1,516,042	2,951,762
Increase (decrease) in net position	62,641,726	14,119,493	(6,711,979)
Total net position, beginning of year, as previously reported	371,983,330	357,863,837	364,575,816
Adjustment for adoption of accounting standard (Note 12)	(13,584,499)	-	-
Net position, at beginning of year, restated	358,398,831	357,863,837	364,575,816
Net position, at end of year	\$ 421,040,557	\$ 371,983,330	\$ 357,863,837

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

Revenues and Expenses

Gross Patient Service Revenue

Gross patient service revenue increased approximately \$140.3 million, or 6.1%, for the year ended December 31, 2018, compared with the year ended December 31, 2017, as shown in the following table:

	Gross Patient Revenue		Dollar	Percentage
	2018	2017	Change	Change
Inpatient revenue	\$ 885,707,762	\$ 831,391,487	\$ 54,316,275	6.5%
Outpatient revenue	1,165,004,435	1,100,309,175	64,695,260	5.9%
Physician billing	251,907,184	227,723,636	24,183,548	10.6%
Ambulance	120,576,747	123,450,814	(2,874,067)	-2.3%
Total	2,423,196,128	2,282,875,112	140,321,016	6.1%
Charge forgone for charity care	(164,701,869)	(165,431,460)	729,591	-0.4%
Total gross patient revenue	\$ 2,258,494,259	\$ 2,117,443,652	\$ 141,050,607	6.7%

Inpatient charges increased by 6.5%, or approximately \$54.3 million over 2017. The inpatient gross revenue has increased in the areas of the ACUTE eating disorder unit and Invasive Cardiology. Additionally, there was a price increase for room and bed charges. Inpatient equivalent census days were 2.8% above the prior year and inpatient admissions were 0.3% above the prior year.

Outpatient charges increased by approximately \$64.7 million, or 5.9% over 2017. The outpatient gross revenue has increased in the areas of Outpatient Pharmacy, Infusion Center, Radiology, Invasive Cardiology, Laboratory and Perioperative services. Total outpatient clinic encounters increased 6.1% over 2017.

Physician billing revenue increased approximately \$24.2 million, or 10.6% over 2017. The physician billing increased significantly in the areas of Radiology, Cardiology, Anesthesiologist, Ophthalmologists, Neurosurgeons, Dental, Family Practice, Internal Medicine, and Behavioral Health Providers. Volume increases and improved charge capture are the driving factors of physician charge increases.

Ambulance revenue decreased approximately \$2.9 million, or 2.3%, primarily due to a decrease in transport volume, though the number of responses has remained stable. Only transports are billable.

Indigent Care, Charity Care and Community Service

The Authority, as part of its mission, provides healthcare services to the City's residents, regardless of ability to pay. Many of the Authority's patients are unable to obtain benefits from insurance companies or do not have personal resources to cover costs. The financial burden; however, is in part offset by various federal, state, local and private programs in which such patients are enrolled. The costs of charity care provided under the Authority's charity care policy was approximately \$60,288,000 and \$62,286,000 for the years ended December 31, 2018 and 2017, respectively.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

Records are maintained to identify and monitor the level of charity care the Authority provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. This policy directly relates to that of the state CACP program and an internal charity program as required by Denver Health Bureau of Primary Health Care Section 330 Grant for primary care. The level of charity care provided during the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Uncompensated care		
Contractual adjustments	\$ 1,396,091,995	\$ 1,274,766,247
Provision for bad debts	81,351,599	79,285,673
Charity care	<u>164,701,869</u>	<u>165,431,460</u>
	<u><u>\$ 1,642,145,463</u></u>	<u><u>\$ 1,519,483,380</u></u>

The Authority estimates the level of uncompensated care by payor classification based on established rates. The change in charity care is attributable to a shift in payor mix.

Net Patient Service Revenue

For the year ended December 31, 2018, net patient service revenue increased from 2017 by approximately \$99.0 million, or 18.2%, driven by increased volumes and revenue cycle Operational Excellence initiatives. As noted in previous sections the DH Medicaid Choice managed care plan moved to the Plan effective September 1, 2018. The capitation payment from the Plan to the Authority is included in net patient service revenue; this change accounted for \$40.5 million of the year over year net patient service revenue increase, while capitation revenue decreased by \$81.4 million (claims expense and other administrative expenses also decreased).

For the year ended December 31, 2017, Net patient service revenue increased from 2016 by approximately \$39.7 million, or 7.9%, driven by higher volumes. The realization rate, which is calculated as net patient service revenue divided by gross patient revenue (before charity care charges foregone) was stable compared to 2016.

Capitation Earned Net of Reinsurance

For the year ended December 31, 2018, capitation earned net of reinsurance for DH Medicaid Choice decreased by approximately \$81.4 million, or 37.3%, due to the DH Medicaid Choice plan moving to the Authority's component unit, the Plan. This move also explains the decrease in managed care outside provider claims of \$26.4 million or 40.5%. Effective September 1, 2018, the Authority now receives subcapitation from the Plan for DH Medicaid Choice members, as the Plan receives the capitation premium directly from the State. For September 1, 2018 and forward this capitation amount is reflected in net patient service revenue. After accounting for all changes in membership, rate decreases, the change in payment methodology, and offsetting decreases in claims expense and administration cost, there was a net decrease to operating income related to DH Medicaid Choice of approximately \$14.0 million between 2017 and 2018. Capitation earned net of reinsurance expense was approximately \$21.8 million below budget, while Managed care outside provider claims was \$7.3 million under budget, through August 31, 2018.

For the year ended December 31, 2017, capitation earned net of reinsurance for DH Medicaid Choice increased by approximately \$17.1 million, or 8.5%, due to an increase in membership of 14.1%. On a per

Denver Health and Hospital Authority
Management's Discussion and Analysis (Unaudited)
December 31, 2018 and 2017

member per month (PMPM) basis, the revenue earned by the Authority increased by 3.0% due to State of Colorado capitation rate increases.

Medicaid Disproportionate Share Hospital (DSH) and Other Safety Net Reimbursement

Medicaid DSH revenue and other safety net reimbursement increased approximately \$34.2 million, or 29.8%, compared to 2017, as discussed in detail in the 2018 highlights section.

In 2017, Medicaid DSH revenue and other safety net reimbursement increased approximately \$526,000, or 0.5%, compared to 2016.

Medicaid DSH, other safety net revenue and expense, and primary care funds for 2018 and 2017 are as follows:

	2018	2017
Colorado Indigent Care Program revenue	\$ 102,501,900	\$ 79,440,528
Supplemental Medicaid base rate revenue	14,233,321	10,143,677
Supplemental Medicaid outpatient hospital revenue	9,525,964	11,615,890
Hospital quality incentive payment	<u>8,127,919</u>	<u>4,511,753</u>
Total Hospital provider fee revenue	134,389,104	105,711,848
Provider fee expense (included in contracted services and non-medical supplies)	<u>(32,417,412)</u>	<u>(28,030,980)</u>
Total net Hospital provider fee	<u>\$ 101,971,692</u>	<u>\$ 77,680,868</u>
	2018	2017
Total Hospital provider fee revenue	\$ 134,389,104	\$ 105,711,848
Ambulance upper payment limit revenue	4,367,620	2,842,502
Outstationing revenue	337,383	1,799,997
Primary care funds	4,084,190	4,441,695
Physician certification revenue	<u>5,763,363</u>	<u>(43,511)</u>
Total other safety net	<u>14,552,556</u>	<u>9,040,683</u>
Total safety net revenue	<u>\$ 148,941,660</u>	<u>\$ 114,752,531</u>

City and County of Denver Payment for Patient Care Services

For the years ended December 31, 2018, 2017 and 2016, as part of the Operating Agreement between the Authority and the City (Note 1 to the basic financial statements), the City paid approximately \$30.8 million annually to the Authority to cover a portion of the cost of treating the medically indigent.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

Grant Revenue

In 2018, federal, state and other grant revenue decreased by approximately \$1.9 million, or 2.9%, primarily due to less contracted services expenditures on grants.

In 2017, federal, state and other grant revenue increased by approximately \$4.3 million, or 6.9%, primarily due to new awards spending of \$1.2 million, an increase in spending on the eGain Implementation state grant of \$1.0 million and an increase of \$1.0 million on the 330 Bureau of Primary Health Care federal grant. The remaining increase is in several smaller federal grants.

City and County of Denver Purchased Services

As part of the Operating Agreement between the Authority and the City (Note 1 to the basic financial statements), the Authority receives payments from the City to provide services, including, but not limited to: medical care for the city inmates, public health, and operation of Denver C.A.R.E.S., which is a 100-bed nonmedical detoxification center. Revenue for reimbursement of these costs totaled approximately \$25.2 million in 2018, which is approximately \$412,000, or 1.7%, higher than 2017 driven by increased acuity and utilization by inmates of the infirmaries in the correctional system. Revenue for reimbursement of these costs were lower than budget \$1.1 million or 4.3% driven by lower than anticipated correctional care and public health expenditures.

In 2017, City revenue for reimbursement of these costs totaled approximately \$24.8 million, which is approximately \$1.7 million, or 7.2%, higher than 2016.

Poison and Drug Center Contracts

The Rocky Mountain Poison and Drug Center (RMPDC) is a certified regional poison center, recognized by the American Association of Poison Control Centers and serves as a regional drug information center. The RMPDC includes RADARS® System, which collects, compiles, analyzes and maintains certain de-identified health care and other information in proprietary databases containing data from several signal detection system networks. The program provides expert analysis and interpretation of data and includes a Scientific Advisory Board. Subscribing organizations are provided with timely geographic-specific surveillance and monitoring reports to detect and characterize prescription drug abuse, misuse, and diversion. Typical organizations using such information include the pharmaceutical industry, regulatory agencies, policymakers and medical/public health officials to aid in understanding trends in the abuse, misuse, and diversion of prescription drugs in the United States. Poison and Drug Center contract revenue for 2018 was approximately \$25.4 million, a \$2.5 million increase over the prior year and \$1.3 million, or 5.4%, above budget. For 2018, RMPDC had a decrease in net assets of approximately \$306,000.

Poison and Drug Center contract revenue for 2017 was approximately \$22.9 million, \$743,000 increase over the prior year and \$1.7 million or 6.8% below budget. For 2017, RMPDC had an increase in net assets of approximately \$2.0 million.

Other Operating Revenue

For 2018, other operating revenue (excluding Poison and Drug Center contracts revenue) increased by \$9.7 million, or 28.4%, over 2017. Significant increases included federal Electronic Health Record (EHR) "Meaningful Use" (Promoting Interoperability Program) revenue for demonstration of use of DHHA's electronic health record, increased 340B contract pharmacy revenue, and RAE delegated care coordination revenue and enrollment services contract revenue.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

For 2017, other operating revenue increased by \$3.1 million, or 10.1%, over 2016. Significant increases included federal Meaningful Use revenues of \$791,000, contract pharmacy of \$763,000, and a contract with HCPF for enrollment services increased by \$730,000 over 2016.

Operating Expenses

Year ended December 31, 2018 compared with year ended December 31, 2017

Operating expenses increased approximately \$6.7 million, or 0.6%, for the year ended December 31, 2018, compared with the prior year.

- Salaries and benefit expense increased \$19.0 million or 3.0% and was slightly above budget for the year by \$499,000 or less than 0.1%. The increase over 2017 is driven by market and merit increases and increased benefit expenses. As of December 31, 2018, the Authority has a \$ 4.1 million dollars management incentive plan (MIP) payout liability.
- Contracted services and nonmedical supplies decreased approximately \$3.0 million, or 1.5%, from 2017 and is \$2.8 million, or 1.5% above budget, while Medical supplies and pharmaceuticals increased approximately \$7.1 million, or 5.7% year over year. The details related to these expenses are explained in the *Highlights* section.
- Managed Care outside provider claims represents the costs incurred for medical care and pharmaceuticals obtained by DH Medicaid Choice members outside of the Authority's system of care. Effective September 1, 2018, the DH Medicaid Choice managed care plan is now a component of the Plan and no longer is reflected on the DHHA financial statements as a managed care plan. This expense is \$38.8 million for 2018.
- Depreciation and amortization expense increased from 2017 by approximately \$10.0 million or 22.4%, driven by accelerated depreciation expense for the 660 Bannock and 550 Acoma buildings.

Year ended December 31, 2017 compared with year ended December 31, 2016

Operating expenses increased approximately \$53.9 million, or 5.4%, for the year ended December 31, 2017, compared with the prior year.

- Salaries and benefits increased \$32.5 million or 5.5% and were below budget for the year by \$3.4 million or less than 1%. The increases over 2016 are driven by market and merit increases, physician compensation increases, growth due to volume, service expansions, non-recurring incentivized retirement expense, and increase in benefit expenses. As of December 31, 2017, the Authority had accrued management incentive payout liability.
- Contracted services and nonmedical supplies decreased approximately \$13.9 million, or 6.7%, from 2016 and was \$6.2 million or 3.3% above budget. The majority of the decrease was due to one-time EPIC implementation expense, ICD-10 conversion in 2016, reduced usage of professional services in eHS and in-sourcing of environmental services and pharmacy administration. The \$6.2 million increase over budget is due to increased provider fee expense and agency labor costs due to increased usage driven by staff turnover.

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

- Medical supplies and pharmaceuticals increased approximately \$17.2 million or 16.0% year over year. The increase was driven by increases in Hepatitis C drug volume.
- Managed Care outside provider claims increased by approximately \$15.4 million, or 30.9%, over the prior year driven by increased membership of 14.1%.
- Depreciation and amortization expense increased over the prior year by approximately \$2.7 million or 6.5%. This expense was under budget by \$2.2 million or 4.7%.

Nonoperating Revenues (Expenses)

Nonoperating revenues and expenses consist primarily of income from the Authority's cash, short- and long-term investments, interest expense, the change in the fair value of investments, the increase in equity investment in joint venture, bond issuance costs, distribution from the Plan, and the gain or loss on disposal of capital assets.

Net nonoperating expense in 2018 was approximately \$18.7 million, compared to net nonoperating revenue of \$12.2 million in 2017. The largest driver in this category was the change in unrealized gain/loss in investments, there was a decrease of \$14.4 million in 2018 compared to an increase of \$9.3 million in 2017 due to a deterioration of the market in 2018. Additionally, there was a gain on forgiveness of notes payables related to the dissolution of Pavilion M of \$8.1 million in 2017 but was non-recurring.

The net nonoperating revenue in 2017 was approximately \$12.2 million, compared to a nonoperating revenue of \$3.2 million in 2016. The largest driver in this category was the gain on forgiveness of notes payables related to the dissolution of Pavilion M of \$8.1 million. Additionally, there was an increase in the unrealized gain on investments from \$4.5 million in 2016, to \$9.3 million due to an improvement in the market in 2017. This increase is offset, in part, by the distribution the Authority received from the Plan for \$5.0 million in 2016 but did not receive in 2018.

Capital Contributions

Capital contributions in 2018 totaled \$25.1 million, compared to \$1.5 million in 2017, and as discussed in an earlier section, were received primarily from the City.

Net capital contributions in 2017 totaled \$1.5 million compared to \$3.0 million in 2016, and were received primarily from the City and an Ebola preparedness grant.

Budgetary Highlights

For the year ended December 31, 2018, the Authority's total operating revenue is \$1,119.5 million, which reflects a \$36.8 million or 3.4% positive variance to budget. Total operating expense is \$1,063.2 million, which is \$7.5 million, or 0.7% below budget. As a result, the Authority has generated an operating income of \$56.3 million and a net gain, excluding capital contributions, of \$37.5 million, which is a favorable variance to budget of \$18.8 million or 99.9%.

The 2018 positive variance to budget was primarily related to provider fee revenue of \$29.9 million above budget due to write-off of a liability for potential HSDC audit recoupment, based on communication received from HCPF and CMS, as well as favorable changes in the HPF reimbursement model. Increased volumes and revenue cycle operational excellence initiatives resulted in increased net patient service revenue above budget of \$17.1 million which was offset by lower

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

capitation revenue driven by lower membership in DH Medicaid Choice. The positive Other operating revenue budget variance of \$12.1 million related to increased federal “Meaningful Use” (Promoting Interoperability Program) revenue for demonstration of use of the Authority’s EHR.

Operating expenses were below budget by \$7.5 million, or 0.7%. This was driven by lower professional services, repair and maintenance expense, and managed care outside provider claims expense due to expense management. This was partially offset by accelerated depreciation expense for the 660 Bannock and 550 Acoma buildings in preparation for the OMC construction and provider fee expense.

Capital Assets and Debt Administration

Capital Assets

Capital assets, net of accumulated depreciation, increased approximately \$15.7 million over the prior year. Additions totaled approximately \$69.3 million, compared to approximately \$72.9 million in 2017. Depreciation expense for the year was approximately \$54.5 million.

In 2017, Capital assets, net of accumulated depreciation, increased approximately \$28.6 million over the prior year. Additions totaled approximately \$72.9 million, compared to approximately \$104.6 million in 2016. Depreciation expense for the year was approximately \$44.5 million.

Long-term Debt

Long-term debt at December 31, 2018, net of current portion and excluding deferred loss on bond refunding, is approximately \$376.9 million compared to \$352.9 million and \$354.2 million for 2017 and 2016, respectively. The increase of \$24.0 million relates primarily to the issuance of the 550 Acoma notes payable of \$40.8 million, offset by principal payments of \$23.0 million. Other notes payable includes of a Housing and Urban Development (HUD) loan of approximately \$2.0 million, the proceeds of which were utilized to build the Park Hill Clinic. Also included in other notes payable is a Community Development Block Grant (CDBG) loan of \$1.2 million. Both loans are between the Authority and the City.

Below is a listing of the Authority’s outstanding long-term debt, net of current portion at December 31, 2018, 2017 and 2016:

	2018	2017	2016
2007 A and B Revenue Bonds	\$ 60,130,000	\$ 61,795,000	\$ 164,102,152
2009 Revenue Bonds	1,320,000	1,420,000	1,520,000
2010 Healthcare Recovery Zone			
Facility Revenue Bonds	24,022,621	24,623,561	25,189,501
2014 Revenue Bonds	78,594,753	79,921,040	81,437,327
2017 A Revenue Bonds	94,281,851	98,463,343	-
Pavilion M notes payable	-	-	36,608,543
601 Broadway notes payable	44,486,362	45,663,338	31,477,163
Program support payable	22,047,754	30,043,380	-
550 Acoma Inc. notes payable	40,794,422	-	-
Other notes payable	11,184,913	10,506,707	13,115,006
Capital lease obligation	-	428,004	792,322
	<u>\$ 376,862,676</u>	<u>\$ 352,864,373</u>	<u>\$ 354,242,014</u>

Denver Health and Hospital Authority

Management's Discussion and Analysis (Unaudited)

December 31, 2018 and 2017

Long-term debt decreased \$1.4 million in 2017 due to the forgiveness of Pavilion M notes payable \$36.6 million and principal payments of \$10.0 million, offset by the new program support payable of \$30.0 million and new debt for 601 Broadway construction \$14.2 million.

The Authority's 2017A, 2014, 2010, 2009, 2007A and 2007B bond series ratings are BBB by Standard and Poor's for December 31, 2018 and 2017. Bond series ratings are BBB and BBB+ by Fitch at December 31, 2018 and 2017, respectively.

Economic Factors and Next Year's Budget

The Authority's budget for 2019 reflects the results of the organization's strategic planning process, which identified, among other cost savings, and efficiency goals, five areas of Operational Excellence including: Managed Care Operations, Care Coordination, Ambulatory Pre-care, Hospital Flow (Non-Complex Patients), and Clinical Variation. These five areas represent the processes that are most influential on the organization's revenue and expense performance, and the Authority recognizes that rigor and focus are needed to improve in each. There are specific budgetary and operational performance goals for each, and the management incentive compensation program for the leadership team focuses on performance in these areas. Additionally, the Authority targeted several services for growth expansions including Interventional Cardiology, Otolaryngology (Ear Nose and Throat), Podiatry, Dental services, LGBT Center of Excellence, Inpatient Psych Expansion, Trauma and Acute Care Surgery Clinics Expansion, and Downtown Urgent Care. The Authority's 2019 budget targets a \$21.1 million revenue decrease compared to 2018, this decrease is driven by the 2018 one-time increase in revenue for provider fee. The 2019 budget includes a gross revenue increase of 9.8% driven by initiatives targeted at increasing patient care service volumes, revenue cycle initiatives, and price increases. The budget includes modest increased volumes and improvements to revenue cycle in order to achieve the operating margin target. In 2019, the new OMC will continue construction with a completion date of 2nd quarter 2020. The Authority believes the OMC will enhance its ability to meet growth demands for the community and remain attractive for all users of the system including commercially insured patients, in order to continue to generate a net income from the insured population to subsidize the Authority's mission.

Salary and benefit costs are budgeted to increase 5.6% over the 2018 actual personnel cost. This is driven by additional staffing correlated with projected increases in patient service volumes and merit and market increases. Labor productivity targets remain in effect to help control the cost of human capital. Reviews are being conducted to ensure hiring is correlated to productivity targets. There is expense for the Management Incentive Plan (MIP) included in the 2019 budget of \$4.0 million. In 2019, 64.0% of the Authority's cost is personnel-related and drives most of the overall increase in budgeted 2019 expense. The Authority has implemented tight budget controls around labor productivity and hiring, and goals for growth initiatives. The 2019 budget reflects an increase in net position of \$21.4 million.

Requests for Information

This financial report is designed to provide a general overview of the Authority's financial results for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, 601 Broadway, MC 0278, Denver, CO 80203.

THIS PAGE LEFT BLANK INTENTIONALLY

Denver Health and Hospital Authority

Statements of Net Position

December 31, 2018 and 2017

Assets and Deferred Outflows of Resources

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 25,865,307	\$ 47,385,642
Restricted cash and cash equivalents	1,089	1,070
Short-term investments	22,540,609	-
Patient accounts receivable, net of estimated uncollectibles of approximately \$36,100,000 and \$28,699,000 in 2018 and 2017, respectively	53,311,297	63,703,796
Due from other governmental entities	27,804,281	26,232,566
Due from City and County of Denver	7,938,431	7,810,430
Other receivables	19,393,509	20,930,915
Interest receivable	2,537,603	2,029,061
Due from and investment in discretely presented component units	7,435,234	3,875,448
Inventories	11,398,356	10,483,234
Prepaid expenses and other assets	13,741,109	9,227,846
Total current assets	191,966,825	191,680,008
Noncurrent Assets		
Notes receivable	15,432,000	15,432,000
Estimated third-party payor settlements receivable	4,060,881	5,561,710
Equity interest in joint venture	1,228,300	1,225,500
Restricted investments	53,186,009	21,668,767
Capital assets, net of accumulated depreciation	517,011,913	501,284,551
Long-term investments	313,657,174	267,378,285
Board-designated investments	14,100,000	36,500,000
Other long-term assets	2,582,946	2,150,234
Total noncurrent assets	921,259,223	851,201,047
Total assets	1,113,226,048	1,042,881,055
Deferred Outflows of Resources		
Accumulated change in fair value of hedging derivatives	10,001,023	12,394,299
Deferred outflows of resources related to pension benefits	19,921,541	25,666,403
Deferred outflows of resources related to other postemployment benefits	1,499,180	-
Deferred outflow - acquisitions	243,667	329,667
Loss on refunding of debt	3,811,775	4,111,625
Total deferred outflows of resources	35,477,186	42,501,994
Total assets and deferred outflows of resources	\$ 1,148,703,234	\$ 1,085,383,049

Denver Health and Hospital Authority
Statements of Net Position (continued)
December 31, 2018 and 2017

Liabilities, Deferred Inflows of Resources and Net Position

	2018	2017
Current Liabilities		
Current maturities of bonds payable	\$ 10,797,845	\$ 8,769,636
Current maturities of capital leases	428,003	375,576
Current maturities of notes payable	4,581,197	4,551,429
Current maturities of program support liability	6,960,000	6,288,000
Medical malpractice liability	5,036,063	4,580,262
Accounts payable and accrued expenses	67,713,351	50,469,438
Accrued salaries, wages and employee benefits	25,190,937	37,278,563
Accrued compensated absences	27,974,852	28,966,549
Unearned revenue	23,736,406	21,500,368
Derivative interest rate swap liability	1,075,643	1,500,183
Accrued claims	2,144,000	10,905,000
	<hr/>	<hr/>
Total current liabilities	175,638,297	175,185,004
	<hr/>	<hr/>
Long-term Liabilities		
Long-term portion of liability for estimated third-party settlements	18,734,258	40,896,679
Long-term portion of compensated absences	136,581	137,992
Bonds payable, less current maturities	258,349,225	266,222,944
Capital lease obligations, less current maturities	-	428,003
Notes payable	96,465,696	56,170,045
Derivative interest rate swap liability	8,925,380	10,898,971
Program support liability	22,047,755	30,043,381
Net pension liability	105,588,100	120,035,324
Postemployment benefits	23,294,540	7,574,255
	<hr/>	<hr/>
Total long-term liabilities	533,541,535	532,407,594
	<hr/>	<hr/>
Total liabilities	709,179,832	707,592,598
	<hr/>	<hr/>
Deferred Inflows of Resources		
Deferred inflows of resources related to pension benefits	17,701,465	5,807,121
Deferred inflows of resources related to other postemployment benefits	781,380	-
	<hr/>	<hr/>
Total deferred inflows of resources	18,482,845	5,807,121
	<hr/>	<hr/>
Total liabilities and deferred inflows of resources	727,662,677	713,399,719
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	171,472,396	160,517,460
Unrestricted	249,568,161	211,465,870
	<hr/>	<hr/>
Total net position	421,040,557	371,983,330
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,148,703,234</u>	<u>\$ 1,085,383,049</u>

Denver Health Medical Plan, Inc.
(A Component Unit of Denver Health and Hospital Authority)
Balance Sheets
December 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash and cash equivalents	\$ 2,871,301	\$ 2,461,265
Reinsurance recoverable on paid losses	676,355	570,992
Interest receivable	232,531	270,003
Premiums and other receivables	22,341,790	10,222,543
Prepaid expenses	368,014	348,277
	<hr/>	<hr/>
Total current assets	26,489,991	13,873,080
	<hr/>	<hr/>
Noncurrent Assets		
Restricted investments	1,050,468	603,797
Intangible assets	1,566,360	-
Unrestricted investments	38,956,621	43,017,902
	<hr/>	<hr/>
Total noncurrent assets	41,573,449	43,621,699
	<hr/>	<hr/>
Total assets	<u><u>\$ 68,063,440</u></u>	<u><u>\$ 57,494,779</u></u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable and accrued expenses	\$ 2,310,777	\$ 2,130,500
Aggregate health policy reserves	187,695	26,880
Due to Denver Health and Hospital Authority	6,913,710	2,582,585
Unearned premiums	779,177	621,867
Liability for amounts held under uninsured plans	942,256	1,209,030
Accrued claims and loss adjustment expenses	26,412,099	19,845,730
	<hr/>	<hr/>
Total current liabilities	37,545,714	26,416,592
	<hr/>	<hr/>
Total liabilities	37,545,714	26,416,592
	<hr/>	<hr/>
Net Assets		
Net assets without donor restrictions	30,517,726	31,078,187
	<hr/>	<hr/>
Total net assets	30,517,726	31,078,187
	<hr/>	<hr/>
Total liabilities and net assets	<u><u>\$ 68,063,440</u></u>	<u><u>\$ 57,494,779</u></u>

DHHA Southwest Clinic, Inc.
(A Component Unit of Denver Health and Hospital Authority)
Balance Sheets
December 31, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	\$ 483,984	\$ 543,160
Noncurrent Assets		
Land	4,809,588	4,809,588
Building	17,761,703	17,761,703
Total property	22,571,291	22,571,291
Accumulated depreciation	(1,221,656)	(777,254)
Net property and equipment	21,349,635	21,794,037
Total noncurrent assets	21,349,635	21,794,037
Total assets	\$ 21,833,619	\$ 22,337,197

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ -	\$ 2,101
Due to Denver Health and Hospital Authority	21,285	-
Total current liabilities	21,285	2,101
Notes Payable	21,187,427	21,028,139
Total liabilities	21,208,712	21,030,240
Net Assets		
Without donor restriction	624,907	1,306,957
Total net assets	624,907	1,306,957
Total liabilities and net assets	\$ 21,833,619	\$ 22,337,197

Denver Health and Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	2018	2017
Operating Revenues		
Net patient service revenue	\$ 644,397,553	\$ 545,380,959
Capitation earned net of reinsurance expense	136,653,112	218,010,773
Medicaid disproportionate share and other safety net reimbursement	148,941,660	114,752,531
City and County of Denver payment for patient care services	30,777,300	30,777,300
Federal, state and other grants	64,114,406	66,049,764
City and County of Denver purchased services	25,188,290	24,776,739
Poison and drug center contracts	25,349,639	22,852,467
Other operating revenue	44,032,947	34,286,943
Total operating revenues	<u>1,119,454,907</u>	<u>1,056,887,476</u>
Operating Expenses		
Salaries and benefits	647,029,411	628,026,525
Contracted services and nonmedical supplies	190,460,688	193,422,000
Medical supplies and pharmaceuticals	132,390,682	125,253,288
Managed care outside provider claims	38,830,457	65,258,014
Depreciation and amortization	54,487,664	44,517,680
Total operating expenses	<u>1,063,198,902</u>	<u>1,056,477,507</u>
Operating income	<u>56,256,005</u>	<u>409,969</u>
Nonoperating Revenues (Expenses)		
Increase in equity in joint venture	2,800	124,000
Bond issuance costs	(588,564)	(682,046)
Interest income	11,470,391	9,633,043
Interest expense	(15,200,176)	(14,355,713)
Gain (loss) on forgiveness of note payable/receivable	-	8,135,483
Net increase (decrease) in fair value of investments	(14,424,574)	9,287,858
Gain on disposition of capital assets	10,572	50,857
Total nonoperating revenues (expenses)	<u>(18,729,551)</u>	<u>12,193,482</u>
Income before capital contributions	37,526,454	12,603,451
Contributions Restricted for Capital Assets	<u>25,115,272</u>	<u>1,516,042</u>
Increase in net position	62,641,726	14,119,493
Total Net Position, Beginning of Year, as Previously Reported	371,983,330	357,863,837
Adjustment for adoption of new accounting standard (Note 12)	<u>(13,584,499)</u>	<u>-</u>
Total Net Position, Beginning of Year, Restated	<u>358,398,831</u>	<u>357,863,837</u>
Total Net Position, End of Year	<u><u>\$ 421,040,557</u></u>	<u><u>\$ 371,983,330</u></u>

Denver Health Medical Plan, Inc.
(A Component Unit of Denver Health and Hospital Authority)
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Premiums earned, net of reinsurance, including \$75 million and \$70 million received from Denver Health and Hospital Authority in 2018 and 2017, respectively	\$ 244,361,555	\$ 156,918,888
Total operating revenues	<u>244,361,555</u>	<u>156,918,888</u>
Operating Expenses		
Leased employee services from Denver Health and Hospital Authority	9,178,244	6,099,670
Rent and other administrative expenses paid to Denver Health and Hospital Authority	690,713	437,320
Contracted services and nonmedical supplies	9,092,753	6,052,048
Medical claims and capitation paid to Denver Health and Hospital Authority	123,303,635	72,813,621
Medical and pharmacy claims incurred	<u>104,317,248</u>	<u>73,171,895</u>
Total operating expenses	<u>246,582,593</u>	<u>158,574,554</u>
Operating income	(2,221,038)	(1,655,666)
Nonoperating Revenues (Expenses)		
Investment income	965,581	1,017,809
Net increase in fair value of investments	<u>(298,716)</u>	<u>68,431</u>
Total nonoperating revenues	666,865	1,086,240
Decrease in net assets before contributions from Denver Health and Hospital Authority	(1,554,173)	(569,426)
Capital contribution from Denver Health and Hospital Authority	<u>993,712</u>	<u>-</u>
Net decrease in net assets without donor restrictions	(560,461)	(569,426)
Net Assets Without Donor Restrictions, Beginning of Year	<u>31,078,187</u>	<u>31,647,613</u>
Net Assets Without Donor Restrictions, End of Year	<u><u>\$ 30,517,726</u></u>	<u><u>\$ 31,078,187</u></u>

DHHA Southwest Clinic, Inc.
(A Component Unit of Denver Health and Hospital Authority)
Statements of Operations
Years Ended December 31, 2018 and 2017

	2018	2017
Revenues, Gains and Other Support Without Donor Restrictions		
Contributed management services	\$ 75,045	\$ 67,938
Facility rental from Denver Health and Hospital Authority	365,000	365,000
Interest income	1,551	685
	<hr/>	<hr/>
Total revenues, gains and other support without donor restrictions	441,596	433,623
	<hr/>	<hr/>
Operating Expenses		
Contributed management services	75,045	67,938
Other operating expenses	65,237	49,239
Depreciation expense	444,402	444,222
Interest expense, including amortization of loan costs of \$159,288 for both years	538,962	538,962
	<hr/>	<hr/>
Total operating expenses	1,123,646	1,100,361
	<hr/>	<hr/>
Operating Loss and Change in Net Assets Without Donor Restrictions	(682,050)	(666,738)
	<hr/>	<hr/>
Net Assets Without Donor Restrictions, Beginning of Year	1,306,957	1,973,695
	<hr/>	<hr/>
Net Assets Without Donor Restrictions, End of Year	<u>\$ 624,907</u>	<u>\$ 1,306,957</u>

THIS PAGE LEFT BLANK INTENTIONALLY

Denver Health and Hospital Authority
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Collections from patient services	\$ 624,663,744	\$ 544,347,531
Collections from capitation, net of reinsurance	126,004,207	225,264,499
Medicaid disproportionate share reimbursement and upper payment limit reimbursement	152,123,391	114,914,384
City and County of Denver payment for hospital services	30,401,729	30,777,300
Collections from poison and drug center contracts	25,508,613	22,809,211
Collections from federal, state and other grants	64,879,856	66,007,483
City and County of Denver purchased services	24,588,008	20,318,654
Other operating receipts	43,120,126	31,796,595
Payments for salaries and benefits	(655,082,639)	(618,236,060)
Payments to suppliers	(294,927,340)	(313,846,020)
Payments for managed care outside provider claims	(47,602,420)	(63,516,774)
	<u>93,677,275</u>	<u>60,636,803</u>
Net cash provided by operating activities		
Cash Flows from Capital and Related Financing Activities		
Purchases of capital assets	(70,581,439)	(77,682,915)
Receipt of capital contributions	25,958,115	602,594
Repayments of bonds payable and other long-term debt	(22,958,948)	(117,350,377)
Proceeds from the issuance of bonds and Certificates of Participation	49,440,542	158,815,467
Payment of notes receivable fee	-	(510,552)
Payment of bond issuance costs	(588,564)	(682,046)
Proceeds from the sale of capital assets	10,572	281,308
Cash paid for interest	(15,078,405)	(15,680,888)
	<u>(33,798,127)</u>	<u>(52,207,409)</u>
Net cash used in capital and related financing activities		
Cash Flows from Investing Activities		
Proceeds from sale and maturities of investments	50,944,624	148,181,187
Purchases of investments	(144,260,013)	(176,523,499)
Interest income	11,915,925	9,822,664
	<u>(81,399,464)</u>	<u>(18,519,648)</u>
Net cash used in investing activities		
Net decrease in cash and cash equivalents	(21,520,316)	(10,090,254)
Cash and Cash Equivalents, Beginning of Year	<u>47,386,712</u>	<u>57,476,966</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 25,866,396</u></u>	<u><u>\$ 47,386,712</u></u>

Denver Health and Hospital Authority
Statements of Cash Flows (continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents	\$ 25,865,307	\$ 47,385,642
Restricted cash and cash equivalents	<u>1,089</u>	<u>1,070</u>
Total cash and cash equivalents	<u><u>\$ 25,866,396</u></u>	<u><u>\$ 47,386,712</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	<u>\$ 56,256,005</u>	<u>\$ 409,969</u>
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	54,487,664	44,517,680
Provision for bad debts	81,351,599	79,285,673
Changes in assets and liabilities		
Patient accounts receivable, net	(70,959,100)	(70,205,984)
Due from other governmental entities	(3,876,656)	(2,060,824)
Due from discretely presented component unit	(3,559,786)	(2,037,751)
Due from City and County of Denver	(970,844)	(4,458,085)
Other receivables	1,537,406	(5,232,206)
Inventories	(915,122)	1,569,205
Prepaid expenses and other assets	(5,942,617)	2,176,301
Accounts payable and accrued expenses	18,747,766	11,212,167
Accrued salaries, wages and employee benefits	(11,670,088)	(1,004,483)
Deferred outflows - pension and other postemployment benefits	4,245,682	275,806
Deferred inflows - pension and other postemployment benefits	12,675,725	5,807,121
Net pension and other postemployment benefits liability	(12,311,439)	1,135,384
Accrued compensated absences	(993,108)	3,576,637
Estimated third-party payor settlements	(20,661,592)	(6,407,210)
Medical malpractice liability	455,801	96,595
Unearned revenue	4,540,979	310,808
Accrued claims	<u>(8,761,000)</u>	<u>1,670,000</u>
Total adjustments	<u>37,421,270</u>	<u>60,226,834</u>
Net cash provided by operating activities	<u><u>\$ 93,677,275</u></u>	<u><u>\$ 60,636,803</u></u>
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	\$ 3,152,419	\$ 4,711,978

THIS PAGE LEFT BLANK INTENTIONALLY

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Organization

The Denver Health and Hospital Authority (the Authority) was created in 1994 by the State of Colorado (the state) as a political subdivision of the state pursuant to Article 29 of Title 25, Colorado Revised Statutes, as amended (the Act). As contemplated in the Act, on January 1, 1997, substantially all of the programs, services, and facilities of the City and County of Denver's (the City) Department of Health and Hospitals Enterprise Fund were transferred to the Authority pursuant to the Transfer Agreement between the Authority and the City.

Definition of Reporting Entity

The Authority follows Governmental Accounting Standards Board (GASB) accounting pronouncements, which provide guidance for determining which activities, organizations, and functions are included within the financial reporting entity. GASB pronouncements set forth the financial accountability of an organization's elected governing body as the basic criterion for including a possible component organization in the primary government's legal entity. Financial accountability includes, but is not limited to, appointment of a voting majority of the organization's governing body, ability to impose its will on the organization, a potential for the organization to provide specific financial benefits or burdens, and fiscal dependency.

The Authority is financially accountable for DHHA Pavilion M, Inc. (dissolved in 2017), 601 Broadway, Inc., Canadian Consumer Product and Pharmaceutical Safety Inc., and 550 Acoma Inc., each a blended component unit. The Authority is not a component unit of any other primary governmental entity.

The Authority

The Authority is a fully integrated healthcare delivery system, which employs a single physician group and operates four divisions: the Denver Health Medical Center, the City Fund, the Rocky Mountain Poison and Drug Center (RMPDC), and what is referred to by the Authority as the Restricted Fund.

The Denver Health Medical Center is an acute care hospital licensed for 555 total beds, including 93 intensive care beds, that provides inpatient medical and mental health services, an ambulatory care center, emergency medical services including Level 1 Trauma, nine federally qualified community health centers in Denver that provide outpatient services, as well as a federally qualified Women's Mobile Clinic. The Authority also operates 18 school-based clinics in Denver that provide outpatient services to students.

The City Fund is 100% funded by the City (except for depreciation expense) in accordance with an operating agreement between the Authority and the City, which is amended each year. Operations included in the City Fund are the Public Health Department, which provides public health informatics, epidemiology, administration, preparedness and response services in addition to disease control outbreak investigation. Public Health Clinics and Vital Records are also Public Health functions provided to the City in the operating agreement but are funded from revenues and

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

fees collected. Also included in the City Fund is prisoner care at the Denver Justice Center and Denver County Jail and the Denver C.A.R.E.S. shelter, which is a 100-bed nonmedical detoxification center, including limited services for residential treatment.

The RMPDC is a certified regional poison center as recognized by the American Association of Poison Control Centers and serves as a regional drug information center. It also provides poison and drug information services to medical professionals and consumers in other states through contractual agreements.

The Restricted Fund consists primarily of grants the Authority has been awarded that are used as directed by the grantor. The grants are awarded from multiple sources including federal, state, and industry agencies. Annually, the Authority also conducts a single audit under Uniform Guidance to comply with federally awarded grant requirements.

Rocky Mountain Drug Safety Inc. and Canadian Consumer Product and Pharmaceutical Safety Inc.

In September 2015, the Authority created a Colorado not-for-profit corporation Rocky Mountain Drug Safety Inc. (RMDS), of which it is the sole member. Three Authority employees comprise the Board of Directors. The purpose of RMDS is to be the sole member of a Canadian not-for-profit corporation Canadian Consumer Product and Pharmaceutical Safety Inc. (CCPPS). The CCPPS Board of Directors is comprised of two Authority employees and one independent director. CCPPS will perform collection and analysis of drug and pharmaceutical data, to enhance treatment, prevention and mitigation of drug abuse and adverse drug events. CCPPS is presented as a blended component unit because the Authority has the ability to exert its will on CCPPS and the exclusion of CCPPS's financial statements would cause the Authority's financial statements to be misleading. All significant balances and transactions between CCPPS and the Authority have been eliminated in the basic financial statements.

DHHA Pavilion M, Inc.

DHHA Pavilion M, Inc. (Pavilion M) was a Colorado organization formed by the Authority in March 2010 to construct, finance and own a four-story facility to house certain inpatient, outpatient and medical services associated with the Authority's operations. The Authority created Pavilion M for the sole purpose of financing and constructing the facility. By structuring the arrangements for owning and financing the facility to take advantage of New Market Tax Credits, the Authority significantly reduced the net funding that it had to provide to construct the facility. Pavilion M was exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

In June 2010, the Authority issued bonds which were subsequently invested with an equity investor in the form of a note receivable. The equity investor contributed \$10.6 million and the total was invested in three Community Development Entities (CDEs). Pavilion M was loaned the proceeds of these funds in six note payables to these CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to construct the facility. The land occupied by the building was leased to Pavilion M by the Authority. The Pavilion M Board of Directors consisted of three Authority employees. Pavilion M is presented as a blended component unit because it provided

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

services entirely to the Authority and exclusion of Pavilion M's financial statements would cause the Authority's financial statements to be misleading.

As of June 30, 2017, the Authority became the sole owner of the equity investment entity and the notes payable to Pavilion M were forgiven. Additionally, the Authority forgave its notes receivable. Pavilion M was officially dissolved on December 31, 2017. The equipment and building assets were transferred to Denver Health Medical Center.

All significant balances and transactions between Pavilion M and the Authority have been eliminated in the basic financial statements. Separate 2017 financial statements of Pavilion M can be obtained from the Authority at 303.602.7044, or by writing to the Denver Health and Hospital Authority, Division of Finance, MC 1925, 601 Broadway, Denver, Colorado 80203.

601 Broadway, Inc.

601 Broadway, Inc. (601 Broadway) is a Colorado nonprofit organization formed by the Authority in June 2015 to develop land located at the northwest corner of 6th Avenue and Broadway Boulevard, in the City and County of Denver, Colorado. The Authority created 601 Broadway for the sole purpose of financing construction through the issuance of a note payable to a bank. 601 Broadway is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

The construction project is an administrative services building for Authority employees. The cost of the facility is approximately \$63,000,000. The Authority determined that it could reduce the cost of financing the construction of the facility by creating 601 Broadway and contributing \$14,500,000 to the entity. 601 Broadway then obtained a loan from a local bank in the amount of up to \$50,000,000. As of December 31, 2018 and 2017, 601 Broadway had drawn approximately \$48.3 million and \$47.3 million, respectively, on the construction loan. In June of 2017, 601 Broadway was opened and the Authority began paying rent. In 2018, the debt draws were complete and the Authority paid \$3,473,000 in lease payments which funds the debt service on the loan. The land occupied by the building is leased to 601 Broadway by the Authority. The Authority is the sole member of 601 Broadway. The 601 Broadway Board of Directors consists of three Authority employees. 601 Broadway is presented as a blended component unit because it provides services entirely to the Authority and exclusion of 601 Broadway's financial statements would cause the Authority's financial statements to be misleading. All significant balances and transactions between 601 Broadway and the Authority have been eliminated in the basic financial statements.

550 Acoma Inc.

550 Acoma Inc. (550 Acoma) is a Colorado nonprofit organization formed by the Authority in September 2018 to construct a parking garage on the Hospital campus, in the City and County of Denver, Colorado. The Authority created 550 Acoma for the sole purpose of financing construction through a public issuance of a note payable. 550 Acoma has applied for an exemption from taxes under Section 501(c)(3) of the Internal Revenue Code.

The construction project is a parking garage for Authority employees. The cost of the garage is approximately \$38,000,000. The parking garage is expected to be completed in the 2nd quarter of 2020. The Authority will pay 550 Acoma rent to cover the interest and principal payments for the

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

life of the debt. The land occupied by the parking garage is leased to 550 Acoma by the Authority. The Authority is the sole member of 550 Acoma. The 550 Acoma Board of Directors consists of three Authority employees. 550 Acoma is presented as a blended component unit because it provides services entirely to the Authority and exclusion of 550 Acoma's financial statements would cause the Authority's financial statements to be misleading. All significant balances and transactions between 550 Acoma and the Authority have been eliminated in the basic financial statements.

Denver Health Medical Plan, Inc.

Denver Health Medical Plan, Inc. (the Plan) is a Colorado nonprofit organization formed by the Authority in 1997 as a health maintenance organization to provide comprehensive healthcare services on a prepaid basis to its members. The Plan is governed by a nine-member Board of Directors, which is appointed by the Authority. The majority of the Plan's Board of Directors consists of Board members and executive staff of the Authority. The Plan's members consist of current and former employees of the Authority and their dependents, the City, the Denver Employee Retirement Plan, Child Health Plan Plus participants, Medicare Choice (dual eligibles) and Medicare Select Low Income Plan. In 2014, the Plan began offering individual commercial coverage through Connect for Health Colorado, the Colorado insurance marketplace developed as a result of the Affordable Care Act. Effective September 1, 2018 the responsibility of the Denver Health Medicaid Choice (DH Medicaid Choice) contract shifted from the Authority to the Plan. This shift was the result of the Colorado Department of Health Care Policy and Finance (HCPF) new Regional Accountable Entity (RAE) and to incorporate the DH Medicaid Choice contract directly into the RAE. Denver County is the sole county in RAE 5 which is operated by Colorado Access (COA).

The Authority is able to impose its will on the Plan and is financially accountable for the Plan. Accordingly, the Plan is presented as a discretely presented component unit.

Financial statements for the Plan, prepared on a statutory basis of accounting, can be obtained from the Authority at 303.602.2005, or by writing to the Denver Health and Hospital Authority, Division of Finance, MC 1925, 655 Broadway, Denver, Colorado 80203.

DHHA Southwest Clinic, Inc.

DHHA Southwest Clinic, Inc. (Southwest Clinic) is a Colorado nonprofit organization formed by the Authority in September 2014 to purchase land and construct, finance and own an outpatient and urgent care clinic in Southwest Denver, which began providing outpatient medical services associated with the Authority's operations in April 2016. The Authority created Southwest Clinic for the sole purpose of financing and constructing the facility. By structuring the arrangements for owning and financing the facility to take advantage of New Market Tax Credits, the Authority significantly reduced the net funding that it must provide to construct the facility. Southwest Clinic is exempt from taxes under Section 501(c)(3) of the Internal Revenue Code.

The members of Southwest Clinic are the Authority and Denver Community Health Service Inc., (DCHS) a Colorado nonprofit corporation. The Board of Directors of Southwest Clinic consists of one member who is an Authority Board Director, and two members who are DCHS Board

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Directors. Two Authority employees act as non-voting officers of Southwest Clinic. The Authority is financially accountable for Southwest Clinic, and therefore it is a discretely presented component unit.

In May 2014, the Authority issued bonds which were subsequently invested with an equity investor in the form of a note receivable. The equity investor contributed \$7.3 million and the total was invested in three CDEs. Southwest Clinic was loaned the proceeds of these funds in six note payables to these CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to purchase land and was used to construct the facility. The Authority leased the building from Southwest Clinic starting in April 2016 for 20 years. Lease payments were made of \$365,000 during 2018 and 2017.

Denver Health and Hospitals Foundation

The Denver Health and Hospitals Foundation (the Foundation) is a not-for-profit charity formed for the benefit of the Authority. The Foundation's mission is to support the Authority in its mission to provide quality patient care. Significant areas of support include, but are not limited to, maternal and child health, community health, volunteer functions, trauma prevention and care, among others. Fund-raising efforts for the benefit of the Authority are undertaken by the Foundation, and the Authority is entitled to and has the ability to access resources held by the Foundation to fund its programs; however, the assets held by the Foundation and the annual funding are not significant to the Authority's operations as a whole and the Authority does not appoint a voting majority of the Foundation's Board. Therefore, the Foundation is not presented as a component unit of the Authority.

The Authority does provide certain accounting and administrative functions for the Foundation at no cost. During 2018 and 2017, the Foundation paid the Authority approximately \$2.7 million and \$1.6 million, respectively, in pass through grants and donations. The Foundation made capital contributions of \$0 and \$150,000 to the Authority for projects related to patient care in 2018 and 2017, respectively.

HSS, Inc.

The Authority is an equity owner of HSS, Inc. (HSS). HSS services customers in the healthcare industry, as well as other organizations and governmental agencies. Services provided by HSS include security services and courier services, which are utilized by the Authority. In 2009, the Authority was granted 9.5% of the outstanding shares of stock in HSS at no cost. The Authority has recorded this as an investment in equity of a joint venture. The change in the value of the Authority's share of net equity has been recorded as nonoperating income. The Authority paid HSS approximately \$4.8 million and \$4.4 million in 2018 and 2017 respectively, for services rendered for security and transportation.

Relationship with the City and County of Denver

The Act states that the City shall have no control over the operations of the Authority. Principal agreements between the Authority and the City dated January 1, 1997 include the Operating Agreement and the Personnel Services Agreement. The Operating Agreement is amended annually.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

The Operating Agreement provides for and defines the services the Authority will provide to the City and be provided by the City to the Authority as well as the basis for determining compensation for such services. The agreement was entered into in order to ensure the citizens of the City would have access to quality preventative, acute, and chronic healthcare regardless of their ability to pay. The Authority and the City intend to continue to be collaborative and supportive in carrying out the objectives through annual City payments to the Authority.

The Personnel Services Agreement provides for the lease of City employees to the Authority and the Authority's payment obligations with respect to such employees.

For each of the years ended December 31, 2018 and 2017, the Authority recognized revenue from the City for Authority services of approximately \$30,777,000 as compensation for costs incurred for treatment of medically indigent Denver residents.

The City purchased services revenue includes amounts relating to support services and expenses incurred by the Authority for other City agencies. These costs are reimbursed by the City and amounted to approximately \$25,188,000 and \$24,777,000 in 2018 and 2017, respectively. Revenue is recognized as services are provided. As of December 31, 2018, the City has an outstanding commitment to provide funding to the Authority not to exceed \$16,000,000 for debt financed clinic construction within the city limits of Denver, Colorado.

Basis of Presentation

The Authority prepares its financial statements as a business-type activity in conformity with applicable pronouncements of GASB.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Authority considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018 and 2017, cash equivalents consisted primarily of operational depository and checking accounts.

Investments, Restricted and Board-designated Investments

Investments consist of U.S. treasuries and government obligations, asset-backed securities, corporate notes and bonds, mutual funds, and certificates of deposit. Investments are carried at fair value, which is based upon quoted market prices, except the bond reserve funds invested in guaranteed investment contracts, which are carried at cost. Money market accounts, local

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

government investment pools, and investments whose maturities at the time of acquisition are one year or less are classified as short-term investments. All other investments are classified as long-term.

Restricted investments include assets held in investment accounts restricted for future debt service as specified in the related bond agreement.

Board-designated investments include assets held in investment accounts set aside by the Board of Directors for future capital projects, over which the Board retains control and at its discretion subsequently use for other purposes.

Interest, dividends, and realized and unrealized gains and losses, based on the specific-identification method, are included in nonoperating revenue and expenses when earned or realized.

Patient Accounts Receivable

The Authority reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Authority provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Inventories

Inventories consist principally of medical and surgical supplies, pharmaceuticals, and food products and are stated at the lower of cost or market, with cost determined on an average-cost basis.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or, fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The Authority uses the estimated useful lives recommended by the American Hospital Association. Useful lives for building and improvements are 15 to 40 years and equipment and software are 3 to 20 years. The Authority's capitalization threshold for capital purchases is \$5,000.

Accrued Compensated Absences

The Authority has vacation and sick leave policies covering substantially all of its employees. Employees may accumulate earned but unused benefits up to a specified maximum. The Authority has recorded the accrued liability for these compensated absences in the basic financial statements. The Authority has recorded a long-term liability for supplemental sick leave benefits for certain employees that were eligible for this benefit as of January 1, 1997, at the time the Department of Health and Hospital's Enterprise Fund was transferred to the Authority.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Unearned Revenue

Unearned revenue consists primarily of certain grant receipts received in advance of the applicable expenditures, advance payments received for the Disproportionate Share Hospital (DSH) Program and Upper Payment Limit (UPL) Programs, as well as RMPDC contract revenue received in advance of performing contract services.

Accrued Claims

Claim liabilities are based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Claim liabilities are recomputed using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claim liabilities are charged or credited to expense in the periods in which they are made.

Cost-sharing Defined Benefit Pension Plan

The Authority participates in a cost-sharing multiple-employer defined benefit pension plan, Denver Employees Retirement Plan (DERP). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of DERP and additions to/deductions from DERP's fiduciary net position have been determined on the same basis as they are reported by DERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Cost-sharing Defined Benefit Other Postemployment Benefit Plan

The Authority participates in a cost-sharing multiple-employer defined benefit other postemployment benefit plan, OPEB DERP, (the OPEB DERP Plan). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB DERP Plan and additions to/deductions from the OPEB DERP Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB DERP Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Defined Benefit Other Postemployment Benefit Plan

The Authority has a single-employer defined benefit other postemployment benefit (OPEB) plan, Healthcare Premium Supplement Plan, (the Supplement Plan). For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense have been determined on the same basis as they are reported by the Supplement Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Deferred Outflows of Resources and Deferred Inflows of Resources

The Authority reports in a separate section of its statements of net position the consumption of net position that is applicable to a future reporting period as deferred outflows of resources and reports the acquisition of net position that is applicable to a future reporting period as deferred inflows of resources.

The Authority reports deferred outflows of resources for pension benefits, other postemployment benefits, acquisitions, loss on refunding and accumulated decrease in the fair value of hedging derivatives. The Authority reports deferred inflows of resources for pension benefits and other postemployment benefits.

Deferred Loss on Refunding – The cost of debt refunding is deferred and amortized using the straight-line method over the remaining life of the old debt or the life of the new debt, whichever is shorter, and reported as deferred outflows of resources on the Authority's statements of net position.

Net Position

The Authority's net position is classified as follows:

Net Investment in Capital Assets – consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase, construction or improvement of those assets. Any significant unspent related debt proceeds and the corresponding portion of the debt would be included in either restricted or unrestricted net position.

Unrestricted – consists of the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

When the Authority has both restricted and unrestricted resources available to finance a particular program, it is the Authority's policy to use restricted resources before unrestricted resources.

Revenues and Expenses

The Authority's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services and include patient service and other revenue. Nonoperating revenues include investment income and unrealized gains/losses on investments, change in equity in joint venture, distributions from discretely presented component unit gain on forgiveness of note payable/receivable and gain on disposition of capital assets. Nonoperating expenses include interest expense on outstanding debt obligations. Operating expenses are all expenses incurred to provide healthcare services, excluding financing costs.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Capitation Earned

Capitation revenue is earned based on the month in which members are entitled to healthcare services. Excess of loss reinsurance expense is deducted from gross capitation revenue.

Federal, State and Other Grants

Grants and contracts consist primarily of contractual agreements with governments and private entities for the Authority to conduct research and education and to provide healthcare services. These agreements represent exchange transactions between the Authority and the grantors and, accordingly, are included in operating activities. Revenue is recognized under these agreements as related expenses are incurred.

Poison and Drug Center Contracts

Poison and Drug Center contract revenue is derived primarily from contractual agreements with public and private entities for the provision of a medical call center and other consultative services. Revenue is recognized based on the performance of contract deliverables or as related (cost-reimbursable) expenses are incurred.

Managed Care – Outside Provider Claims

Costs of healthcare services delivered by outside providers are accrued and included in expense in the period the service is rendered, including estimates for healthcare costs, which have been incurred but not yet reported, and are included in accrued claims liability.

Income Taxes

The income generated by the Authority, as an instrumentality of the state, is excluded from federal income taxes under Section 115 of the Internal Revenue Code (the Code). However, taxes will be assessed on income derived from business activities not substantially related to the Authority's, 601 Broadway's, CCPPS's, or 550 Acoma Inc. exempt function (unrelated business income).

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate Meaningful Use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue at the end of the reporting period starting when management is reasonably assured it will meet all of the Meaningful Use objectives and all other contingencies have been met.

Regarding Meaningful Use for eligible hospitals, in 2018, the Authority attested that it met all applicable program year 2017 Modified Stage 2 Year 3 objectives for the Medicare EHR Incentive Programs during the 90-day period January through March 2017. The Authority anticipates attesting that it will meet the program year 2018 Modified Stage 2 Year 4 objectives for the Medicare EHR Incentive Programs during a 90-day period ending no later than December 31, 2018. The Authority recorded approximately \$300,000 of Meaningful Use revenue for the Denver Health Medical Center in 2017. EHR incentive payments are no longer available for the Authority after 2017.

Regarding Meaningful Use for eligible providers, in 2018, the Authority attested on behalf of 212 eligible providers that they met all applicable program year 2016 objectives, and the Authority attested on behalf of 300 eligible providers that they met all applicable program year 2017 objectives for the Medicaid EHR Incentive Program. In the future, the Authority will continue to attest for additional eligible providers based upon implementation of a certified system that meets the applicable Meaningful Use objectives for the outpatient setting. In 2018, the Authority recorded approximately \$5.8 million of Meaningful Use revenue for eligible providers, compared to \$2.0 million in 2017.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Note 2: Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare. Inpatient acute care services and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Hospital outpatient services are reimbursed on a prospective payment system. Outpatient services and procedures that are clinically comparable and use similar resources are grouped into Ambulatory Payment Classifications. Federally Qualified Healthcare (FQHC) services rendered to Medicare program beneficiaries are paid under a prospective payment system (PPS). Medicare payment, including patient coinsurance, is paid based on the lesser of the Authorities' actual charge or the applicable PPS rate. The Authority is also reimbursed for certain capital and medical education costs and allowable bad debts at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare Administrative Contractor. The Authority's classification of patients under the Medicare program and the appropriateness of the admissions are subject to an independent audit by a peer review organization under contract with the Authority. The Authority's Medicare cost reports have been audited by the Medicare Administrative Contractor through December 31, 2014.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospectively determined system similar to Medicare. Outpatient services were primarily reimbursed by the Medicaid program based on the costs incurred until October 30, 2016. The Authority was reimbursed for outpatient services at a tentative rate with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid Administrative Contractor. The Authority's Medicaid cost reports have been audited by the Colorado Department of Health Care Policy and Financing through the year ended December 31, 2014. Effective October 31, 2016, these services are now paid under the Enhanced Ambulatory Patient Grouping (EAPG) System. Medicaid outpatient services are now paid at prospectively determined rates, which vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Authority also provides services under a Medicaid prepaid health plan referred to as the Denver Health Medicaid Choice (DH Medicaid Choice) program for which it receives capitation for services.

Other Payors. The Authority has also entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates per day or visit.

Indigent Care, Charity Care and Community Service. The Authority, as part of its mission, provides healthcare services to city residents, regardless of ability to pay. Many of the Authority's patients are unable to obtain benefits from insurance companies or do not have personal resources to cover costs. The financial burden, however, is in part offset by various

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

federal, state, local, and private programs in which such patients are enrolled. The costs of charity care provided under the Authority's charity care policy was approximately \$60,288,000 and \$62,286,000 for the years ended December 31, 2018 and 2017, respectively.

Records are maintained to identify and monitor the level of charity care the Authority provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. This policy directly relates to that of the Colorado Disproportionate Share Hospital Program (DSH Program).

Gross patient service revenue and the level of uncompensated care provided, based on the Authority's established rates, during the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Gross charges, including charges forgone for charity	\$ 2,423,196,128	\$ 2,282,875,112
Charges forgone for charity care	(164,701,869)	(165,431,460)
Gross patient service revenue	2,258,494,259	2,117,443,652
Capitation earned under prepaid health plans	(136,653,112)	(218,010,773)
Contractual adjustments	(1,396,091,995)	(1,274,766,247)
Provision for bad debts	(81,351,599)	(79,285,673)
Net patient service revenue	\$ 644,397,553	\$ 545,380,959
Uncompensated care		
Contractual adjustments	\$ 1,396,091,995	\$ 1,274,766,247
Provision for bad debts	81,351,599	79,285,673
Charity care	164,701,869	165,431,460
	\$ 1,642,145,463	\$ 1,519,483,380

The Authority receives partial reimbursement for uncompensated care from the DSH Program, provider fee payments and the City. The Authority estimates the level of uncompensated care by payor classification based on established rates.

Note 3: Disproportionate Share Hospital (DSH) Program and Upper Payment Limit (UPL) Programs

The Authority participates in the DSH Program. The Authority qualifies as a DSH as it serves a high proportion of medically indigent and uninsured patients. The DSH Program was created in 1991 through an amendment to the Colorado State Medicaid Program and was approved by the Centers for Medicare and Medicaid (CMS).

Under the DSH Program, the state utilizes a provider fee as the local match for federal funding. The state pays the Authority two months in advance at the end of the year. This results in unearned

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

revenue included in the statements of net position. The state has paid the Authority approximately \$17,915,000 and \$16,156,000 in advance for the years ended December 31, 2018 and 2017, respectively. The payments received through the DSH Program are based on the cost of uncompensated charity care.

In addition, the Authority receives UPL reimbursements, which is designed to increase the Medicaid reimbursement rate up to the Authority's Medicaid cost not to exceed the Medicare reimbursement rate.

The provider fee serves as the state match for federal DSH and UPL funds which are drawn by the state and paid to the Authority using the provider fee methodology developed as part of the Colorado Healthcare Affordability Act. The Authority recognizes revenue to align with the current state fiscal year that the award relates to. The revenue is based off of the initial award amount communicated and adjusted when it's approved by the State of Colorado. The Authority recognizes revenue in the year in which notification of the award amount has been received and ratably over the state fiscal year. The Authority recorded safety net reimbursements (net of provider fee expense paid) totaling approximately \$116,524,000 and \$86,722,000 for the years ended December 31, 2018 and 2017, respectively. The Authority records as expense the corresponding provider fee assessment due the state and the Colorado Hospital Association.

The Colorado Healthcare Affordability Act, designated as House Bill 1293 (HB 1293), was passed during 2009 implementing a fee on hospitals to generate matching funds to the state from federal sources. Implementation of this act occurred during April of 2010. The resulting safety net revenue and expense for 2018 and 2017 had the following effect on the financial statements:

	2018	2017
Colorado Indigent Care Program revenue	\$ 102,501,900	\$ 79,440,528
Supplemental Medicaid base rate revenue	14,233,321	10,143,677
Supplemental Medicaid outpatient hospital revenue	9,525,964	11,615,890
Hospital quality incentive payment	8,127,919	4,511,753
Total Hospital provider fee revenue	134,389,104	105,711,848
Provider fee expense (included in contracted services and non-medical supplies)	(32,417,412)	(28,030,980)
Total net Hospital provider fee	<u>\$ 101,971,692</u>	<u>\$ 77,680,868</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

	2018	2017
Total Hospital provider fee revenue	<u>\$ 134,389,104</u>	<u>\$ 105,711,848</u>
Ambulance Upper Payment Limit revenue	4,367,620	2,842,502
Outstationing revenue	337,383	1,799,997
Primary care funds	4,084,190	4,441,695
Physician certification revenue	<u>5,763,363</u>	<u>(43,511)</u>
Total other safety net	<u>14,552,556</u>	<u>9,040,683</u>
Total safety net revenue	<u><u>\$ 148,941,660</u></u>	<u><u>\$ 114,752,531</u></u>

At December 31, 2018 and 2017, the Authority had a prepaid for provider fee expense which is recorded on the statements of net position in the amounts of approximately \$5,176,000 and \$4,435,000, respectively.

Note 4: Investments and Restricted Investments

Colorado Statutes require that the Authority use eligible depositories for all cash deposits, as defined by the Public Deposit Protection Act (PDPA). Under PDPA, the depository is required to pledge eligible collateral having a market value at all times equal to at least 102% of the aggregate public deposits held by the depository not insured by the Federal Deposit Insurance Corporation (FDIC).

The Authority uses eligible depositories for all its deposits and investments. Remaining cash balances are swept daily to a Class I money market account or AAAM rated local government investment pool. Any cash balances in other bank accounts are negligible and covered by FDIC insurance.

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2018 and 2017

Cash, cash equivalents and investments at December 31, 2018 and 2017 are as follows:

	2018	2017
Cash and cash equivalents	\$ 25,865,307	\$ 47,385,642
Restricted cash and cash equivalents	<u>1,089</u>	<u>1,070</u>
Total cash and cash equivalents	<u>25,866,396</u>	<u>47,386,712</u>
Short-term investments		
Commercial paper	2,964,675	-
Corporate bonds	<u>19,575,934</u>	<u>-</u>
Total short-term investments	<u>22,540,609</u>	<u>-</u>
Long-term and board-designated investments		
Mortgage-backed securities	19,088,744	15,700,048
U.S. government agency notes	9,404,232	3,848,470
Corporate bonds	180,080,338	157,304,323
Corporate asset-backed bonds	8,500,865	7,983,036
Municipal bonds	21,430,967	22,229,674
Certificates of Deposit	1,000,000	1,000,000
U.S. government treasury bills	6,784,291	7,407,975
Mutual funds		
Global equity fund	5,910,214	9,145,487
Commodity and commodity futures fund	6,535,062	7,402,782
Debt fund	31,607,400	30,516,251
Domestic equity fund	18,363,321	18,825,629
International equity fund	2,758,962	4,972,580
Emerging markets fund	3,609,029	5,089,696
Alternative funds	<u>12,683,749</u>	<u>12,452,334</u>
Total long-term investments and board-designated investments	<u>327,757,174</u>	<u>303,878,285</u>
Total cash, cash equivalents and investments, excluding restricted investments	<u><u>\$ 376,164,179</u></u>	<u><u>\$ 351,264,997</u></u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Restricted investments at December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Bond proceeds restricted as provided in bond agreements		
Cash equivalents	\$ 32,440,485	\$ 1,187,039
Guaranteed investment contract	<u>20,745,524</u>	<u>20,481,728</u>
	<u>\$ 53,186,009</u>	<u>\$ 21,668,767</u>

Credit Risk

The Authority's investment policy applies the prudent person standard and is applied in the context of managing an overall portfolio. Investment responsibilities shall be undertaken "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use."

The Authority's investments are restricted to the following Standard & Poor's (S&P) or equivalent investment quality ratings or higher.

Straight-debt securities – BBB- and up to 10% of the portfolio may be rated below investment grade

Asset-backed securities – A-

Money market mutual funds – AAA

Local government investment pools – AAAm-G or AAAm

U.S. treasuries and U.S. government agencies – AA+

The Authority or its managers may purchase bonds of state governments, local governments, or corporations. New purchases will primarily be rated at a minimum Baa3/BBB- by any of the rating agencies, however, up to 10% of the combined portfolio may be rated below investment grade.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

The following is a summary of the Authority's investments at December 31, 2018 and 2017 with average credit ratings based on S&P ratings or equivalent:

	2018		2017	
	Investments	S & P Rating	Investments	S & P Rating
Cash and cash equivalents				
Cash and cash equivalents		N/A		N/A
Restricted cash and cash equivalents	\$ 1,089	N/A	\$ 1,070	N/A
Class I or government money market fund	25,865,307	AAA	47,385,642	AAA
Total cash and cash equivalents	25,866,396		47,386,712	
Short-term investments				
Commercial paper	2,964,675	A-1	-	A-1
Corporate bonds	2,991,120	A	-	A
Corporate bonds	1,998,080	A-	-	A-
Corporate bonds	5,584,694	BBB+	-	BBB+
Corporate bonds	5,975,520	BBB	-	BBB+
Corporate bonds	3,026,520	BBB-	-	BBB-
Total short-term investments	22,540,609		-	
Long-term and board-designated investments				
Mortgage-backed securities	2,091,834	AAA	2,272,139	AAA
Mortgage-backed securities	11,041,734	AA+	7,673,729	AA+
Mortgage-backed securities	-	D	56,633	D
Mortgage-backed securities	5,910,524	N/A	5,697,547	N/A
Mortgage-backed securities	44,651	N/R	-	N/R
U.S. government agency notes	9,404,232	AA+	3,848,470	AA+
Corporate bonds	931,690	AAA	969,510	AAA
Corporate bonds	974,390	AA+	1,024,370	AA+
Corporate bonds	1,163,664	AA	2,207,034	AA
Corporate bonds	7,036,805	AA-	4,324,287	AA-
Corporate bonds	3,779,809	A+	6,541,022	A+
Corporate bonds	21,698,466	A	24,593,179	A
Corporate bonds	24,099,336	A-	26,804,720	A-
Corporate bonds	62,066,930	BBB+	54,108,250	BBB+
Corporate bonds	46,493,591	BBB	27,794,421	BBB
Corporate bonds	11,835,656	BBB-	6,822,070	BBB-
Corporate bonds	-	BB-	1,974,760	BB-
Corporate bonds	-	N/A	140,700	N/A
Corporate asset backed bonds	2,455,218	AAA	2,692,711	AAA
Corporate asset backed bonds	1,992,600	AA	-	AA
Corporate asset backed bonds	1,005,475	A	1,999,240	A
Corporate asset backed bonds	3,047,573	N/A	3,291,085	N/A
Municipal bonds	3,342,759	AA+	3,414,414	AA+
Municipal bonds	4,045,966	AA	3,818,827	AA
Municipal bonds	5,664,760	AA-	9,745,093	AA-
Municipal bonds	1,365,290	A+	528,055	A+
Municipal bonds	3,188,400	A	869,949	A
Municipal bonds	1,929,499	BBB+	1,961,468	BBB+
Municipal bonds	1,738,554	N/A	1,732,419	N/A
Municipal bonds	155,741	N/R	159,449	N/R
Certificates of deposit	1,000,000	A-2	1,000,000	A-2
U.S. government treasury bills	6,784,291	AA+	7,407,975	AA+
Open End Mutual Funds	81,467,736	N/A	88,404,759	N/A
Total long-term and board-designated investments	327,757,174		303,878,285	
Total cash, cash equivalents and investments, excluding restricted investments	\$ 376,164,179		\$ 351,264,997	

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

The following is a summary of the Authority's restricted investments at December 31, 2018 and 2017 with average credit ratings based on S&P ratings or equivalent:

	2018		2017	
	Investments	S & P Rating	Investments	S & P Rating
Bond proceeds restricted as provided in bond agreements				
Cash equivalents	\$ 32,440,485	N/A	\$ 1,187,039	N/A
Guaranteed investment contracts	14,970,687	AA-	14,970,687	AA-
Guaranteed investment contracts	-	A	5,511,041	A
Guaranteed investment contracts	5,774,837	BBB+	-	BBB+
	<u>\$ 53,186,009</u>		<u>\$ 21,668,767</u>	

Interest Rate Risk

The Authority's investment policy manages exposure to market value losses arising from rising interest rates in several ways. The duration of total assets must be less than six years. As of December 31, 2018, approximately \$27,590,000, or 8.42% of total long-term investments were in corporate asset-backed bonds and government mortgage-backed securities. As of December 31, 2017, approximately \$23,683,000, or 7.79%, of total long-term investments were in these types of securities. The following is a summary of the duration, average weighted maturity of the portfolio, and average weighted effective maturity as of December 31, 2018:

Portfolio Component	Par Value	Duration	Average Weighted Maturity (Years)	Average Weighted Effective Maturity (Years)
Working capital account	\$ 172,954,575	1.73	2.13	1.66
Commerce intermediate	86,351,415	5.72	12.98	8.10
Investment account	32,510,329	1.19	1.66	1.59
Other reserve account	377,456	1.45	1.49	1.49
Medical malpractice reserve account	<u>5,132,199</u>	<u>2.42</u>	<u>3.07</u>	<u>2.71</u>
Total components	<u>\$ 297,325,974</u>	<u>2.91</u>	<u>5.24</u>	<u>3.54</u>

Concentration of Credit Risk

The Authority's investment policy requires diversification of the portfolio to limit credit risk and states as follows:

Diversification: The investments shall be diversified by:

- i) Limiting investments to avoid over concentration in securities from a specific issuer or business.
- ii) Limiting investments in securities that have higher credit risks.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

- iii) Investing in securities with varying maturities.
- iv) Continuously investing a portion of the portfolio in readily available funds, such as money market accounts, repurchase agreements, local government investment pools, and bank account sweep programs, to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
- v) No single financial institution will hold more than 5% of the Authority's portfolio value, excluding U.S. government or U.S. government agency securities. As of December 31, 2018, the Authority owned \$11.9 million (3.15% of the portfolio) of Credit Suisse bonds, \$11 million (2.92% of the portfolio) of Bank of America bonds, \$9.1 million (2.43% of the portfolio) of Citigroup bonds, \$8.7 million (2.30% of the portfolio) of Ford Motor Credit bonds and \$7.4 million (1.98% of the portfolio) of Capital One Bank bonds.
- vi) The following maximum limits, by investment type, are established for the Authority's total investments portfolio, including cash and cash equivalents. It is the intent of the Authority to invest in the following investment categories. The percentage stated is a "not to exceed" limitation. Investments are not required in every investment type. For example, it is permitted to own 80% in agency securities and 20% in repurchase agreements, and own no other securities.

Investment Type	Maximum Percentage of Portfolio
Repurchase agreements	25%
Collateralized certificates of deposit	25%
U.S. Treasury notes and bills	100%
U.S. government agency securities	90%
U.S. government CMOs	20%
Bankers acceptances	10%
Commercial paper	50%
Money market funds	30%
Eurodollar certificates of deposit	10%
Local government investment pools	25%
State and local government bonds	50%
Corporate bonds	75%
Commercial asset-backed securities	25%
Plus Sector Funds	7%
Long Term Growth Portfolio (Mutual Funds)	25%

- vii) Additional investments established for bond proceeds include the above investment contracts, and flexible repurchase agreements (Flex Repos), which can be up to 100% of bond proceeds.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

In the event that an allocation percentage is exceeded, such event is disclosed to the Finance Committee of the Board of Directors and corrected as soon as possible. The portfolio was in compliance with the allocation percentages as of December 31, 2018 and 2017.

Note 5: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018 and 2017:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value			
December 31, 2018				
Short-term investments				
Commercial paper	\$ 2,964,675	\$ -	\$ 2,964,675	\$ -
Corporate bonds	19,575,934	-	19,575,934	-
Long-term investments				
Mortgage-backed securities	19,088,744	-	19,088,744	-
U.S. government agency notes	9,404,232	-	9,404,232	-
Corporate bonds	180,080,338	-	180,080,338	-
Corporate asset-backed bonds	8,500,865	-	8,500,865	-
Municipal bonds	21,430,967	-	21,430,967	-
Certificates of Deposit	1,000,000	-	1,000,000	-
U.S. government treasury bills	6,784,291	5,762,771	1,021,520	-
Mutual funds				
Global Equity Fund	5,910,214	5,910,214	-	-
Commodity and commodity futures fund	6,535,062	6,535,062	-	-
Debt fund	31,607,400	31,607,400	-	-
Domestic equity fund	18,363,321	18,363,321	-	-
International equity fund	2,758,962	2,758,962	-	-
Emerging markets fund	3,609,029	3,609,029	-	-
Alternative funds	12,683,749	12,683,749	-	-
	<u>\$ 350,297,783</u>	<u>\$ 87,230,508</u>	<u>\$ 263,067,275</u>	<u>\$ -</u>
Investment Derivative Instruments				
Interest rate swap	<u>\$ 10,001,023</u>	<u>\$ -</u>	<u>\$ 10,001,023</u>	<u>\$ -</u>
Total investment derivative instruments	<u>\$ 10,001,023</u>	<u>\$ -</u>	<u>\$ 10,001,023</u>	<u>\$ -</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in	Significant	Significant
		Active Markets	Other	Significant
		for Identical	Observable	Unobservable
		Assets	Inputs	Inputs
		(Level 1)	(Level 2)	(Level 3)
December 31, 2017				
Long-term investments				
Mortgage-backed securities	\$ 15,700,048	\$ -	\$ 15,700,048	\$ -
U.S. government agency notes	3,848,470	-	3,848,470	-
Corporate bonds	157,304,323	-	157,304,323	-
Corporate asset-backed bonds	7,983,036	-	7,983,036	-
Municipal bonds	22,229,674	-	22,229,674	-
Certificates of Deposit	1,000,000	-	1,000,000	-
U.S. government treasury bills	7,407,975	7,407,975	-	-
Mutual funds				
Global Equity Fund	9,145,487	9,145,487	-	-
Commodity and commodity futures fund	7,402,782	7,402,782	-	-
Debt fund	30,516,251	30,516,251	-	-
Domestic equity fund	18,825,629	18,825,629	-	-
International equity fund	4,972,580	4,972,580	-	-
Emerging markets fund	5,089,696	5,089,696	-	-
Alternative funds	12,452,334	12,452,334	-	-
	<u>\$ 303,878,285</u>	<u>\$ 95,812,734</u>	<u>\$ 208,065,551</u>	<u>\$ -</u>
Investment Derivative Instruments				
Interest rate swap	<u>\$ 12,399,154</u>	<u>\$ -</u>	<u>\$ 12,399,154</u>	<u>\$ -</u>
Total investment				
derivative instruments	<u>\$ 12,399,154</u>	<u>\$ -</u>	<u>\$ 12,399,154</u>	<u>\$ -</u>

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Interest Rate Swap Agreement

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2018 and 2017

Note 6: Capital Assets

Capital assets, by major category, at December 31, 2018 and 2017 are as follows:

December 31, 2018	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 24,361,955	\$ 9,983,832	\$ -	\$ 34,345,787
Construction in progress	<u>33,729,075</u>	<u>45,954,759</u>	<u>(38,118,985)</u>	<u>41,564,849</u>
Total capital assets, not being depreciated	<u>58,091,030</u>	<u>55,938,591</u>	<u>(38,118,985)</u>	<u>75,910,636</u>
Capital assets, being depreciated				
Buildings and improvements	639,998,274	36,566,731	(464,779)	676,100,226
Equipment and software	<u>323,028,225</u>	<u>14,863,736</u>	<u>(3,910,100)</u>	<u>333,981,861</u>
Total capital assets, being depreciated	<u>963,026,499</u>	<u>51,430,467</u>	<u>(4,374,879)</u>	<u>1,010,082,087</u>
Less accumulated depreciation				
Buildings and improvements	273,307,669	33,890,545	(464,779)	306,733,435
Equipment and software	<u>246,525,309</u>	<u>19,632,166</u>	<u>(3,910,100)</u>	<u>262,247,375</u>
Total accumulated depreciation	<u>519,832,978</u>	<u>53,522,711</u>	<u>(4,374,879)</u>	<u>568,980,810</u>
Total capital assets, being depreciated, net	<u>443,193,521</u>	<u>(2,092,244)</u>	<u>-</u>	<u>441,101,277</u>
Capital assets, net	<u>\$ 501,284,551</u>	<u>\$ 53,846,347</u>	<u>\$ (38,118,985)</u>	<u>\$ 517,011,913</u>

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2018 and 2017

December 31, 2017	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 22,647,091	\$ 1,714,864	\$ -	\$ 24,361,955
Construction in progress	81,382,794	63,310,805	(110,964,524)	33,729,075
Total capital assets, not being depreciated	104,029,885	65,025,669	(110,964,524)	58,091,030
Capital assets, being depreciated				
Buildings and improvements	538,230,555	102,471,002	(703,283)	639,998,274
Equipment and software	319,396,727	16,387,306	(12,755,808)	323,028,225
Total capital assets, being depreciated	857,627,282	118,858,308	(13,459,091)	963,026,499
Less accumulated depreciation				
Buildings and improvements	250,084,634	23,926,318	(703,283)	273,307,669
Equipment and software	238,910,083	20,140,582	(12,525,356)	246,525,309
Total accumulated depreciation	488,994,717	44,066,900	(13,228,639)	519,832,978
Total capital assets, being depreciated, net	368,632,565	74,791,408	(230,452)	443,193,521
Capital assets, net	\$ 472,662,450	\$ 139,817,077	\$ (111,194,976)	\$ 501,284,551

Note 7: Concentrations of Credit Risk – Patient Accounts Receivable and Due from Other Governmental Entities

The Authority grants credit without collateral to its patients, most of whom are residents of the City and, except for the patient self-pay category, are generally insured under third-party payor agreements. Expected credit losses are provided for in the allowance for estimated uncollectibles. Net patient accounts receivable by payor category at December 31, 2018 and 2017 are as follows:

	2018	2017
Medicare	\$ 13,322,644	\$ 14,100,877
Medicaid	12,094,928	16,966,806
Commercial insurance carriers	25,810,810	29,158,941
Patient self-pay	2,082,915	3,477,172
Total	<u>\$ 53,311,297</u>	<u>\$ 63,703,796</u>

Receivables from the Medicare and Medicaid programs represent a concentrated credit risk for the Authority. Management does not believe that there is a significant risk of loss associated with these programs. Management believes various other payors, subject to differing economic conditions, do not represent significant concentrated credit risks to the Authority.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Note 8: Long-term Debt and Other Long-term Liabilities

2007, 2009 and 2017 Revenue Bonds

In May 2007, the Authority issued \$130,650,000 of Healthcare Revenue Bonds, Series 2007A. The bond agreement provides for the payment of principal at maturity ranging from \$2,355,000 to \$4,230,000 that began in 2008 and continues through 2020 and mandatory sinking fund redemption payments ranging from \$4,445,000 to \$12,930,000 beginning in 2021 through 2036. Interest is payable semiannually at fixed rates ranging from 4.75% to 5.25%.

Also in May 2007, the Authority issued \$79,385,000 of Healthcare Revenue Bonds, Series 2007B. The bond agreement provides for mandatory sinking fund redemption at a redemption price equal to 100% of the principal amount and accrued interest to the redemption date. Sinking fund payments ranging from \$1,095,000 to \$9,220,000 began in 2008 and continue until 2033. Interest is payable each quarter and will equal 67% of the three-month LIBOR, plus a spread equal to 1.10% (2.93% at December 31, 2018).

The net proceeds of the Series 2007A and 2007B Bonds were used to: (i) refund all the outstanding 1998A, 2001A and 2004A Healthcare Revenue Bonds in the total principal of \$132.5 million, (ii) to pay or reimburse the costs of acquiring, constructing, renovating, and equipping Authority facilities, (iii) to fund the reserve fund under the master indenture in the amount of \$13.5 million, and (iv) to pay certain expenses incurred in connection with this bond issuance. Bonds are to be repaid from operations of the Authority, excluding revenue from grants, gifts, donations, pledges, or contributions specified by the donor for a specific purpose.

In connection with the Series 2007B Bonds, the Authority entered into an interest rate swap agreement with a counterparty (the Swap) in a notional amount equal to the principal amount of the Series 2007B Bonds. The Swap provides that the Authority pay the counterparty a fixed rate of 4.688% on the notional amount and the counterparty pay the Authority a floating rate based on 67% of the three-month LIBOR, plus a specified fixed spread. Due to fluctuations in the interest rate market there is a negative fair value of approximately \$(10,001,000) and \$(12,399,000) at December 31, 2018 and 2017, respectively. The fair value is disclosed as current and long-term liabilities on the statements of net position at December 31, 2018 and 2017. The Authority does not currently have a policy of requiring the counterparty to post collateral in the event the Authority becomes exposed to credit risk. The Authority does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place. Together, these agreements negate any interest rate risk and in effect resulted in a fixed rate transaction. The Swap is subject to additional termination event risk whereby early termination could occur if the counterparty's (a) long-term senior unsecured debt rating from S&P is withdrawn, suspended, or falls below BBB-; and (b) the long-term senior unsecured debt rating from Fitch is withdrawn, suspended, or falls below BBB- or if the Authority's (a) debt rating from S&P is withdrawn, suspended, or falls below BBB-; and (b) debt rating from Fitch is withdrawn, suspended, or falls below BBB-. If the Swap is terminated, the variable-rate notes would no longer have a synthetic fixed rate of interest. Also, if the Swap has a negative fair value at the time of termination, the Authority would be liable to the counterparty for a payment equal to the Swap's then fair value.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

During 2013, the Authority made early discounted principal payments on the 2007B Bonds on original principal totaling \$4,395,000, for a net payment of \$3,348,000. These principal payments were normally due between December 2013 and December 2018. The associated Swap was not amended for this early extinguishment of principal. As a result, the Authority recorded a gain on early extinguishment of debt of approximately \$1,047,000. A loss on Swap ineffectiveness of \$290,000, which was included in interest expense, was also incurred resulting in a net gain of \$758,000. The difference between the Swap liability and the loss from the portion of the Swap that is ineffective is approximately \$10,001,000 and \$12,394,000 at December 31, 2018 and 2017, respectively, and is a deferred outflows of resources on the Authority's statements of net position. Total payments during 2017 for principal on the 2007A and 2007B Bonds were \$2,741,000. Total payments during 2018 for principal on the 2007B Bonds were \$1,375,000. Interest paid, including Swap interest, was approximately \$2,967,000 and \$7,194,000 for the years ended December 31, 2018 and 2017, respectively.

In December 2009, the Authority issued \$6,240,000 of Healthcare Revenue Bonds Series 2009A bearing interest at 6.25%. The net proceeds of the bonds were used by the Authority to purchase and cancel \$7,725,000 of the Authority's Healthcare Revenue Bonds, Series 2007B, to pay the costs of issuance, and to fund an interest rate exchange agreement termination payment. The bond agreement provides for the payment of principal that began in 2010 and continues through 2033 in amounts ranging from \$85,000 to \$640,000. Interest is payable semiannually at a fixed rate of 6.25%. Payments during 2018 and 2017 for principal on the bonds were \$100,000 and \$620,000, respectively. Interest payments were approximately \$95,000 and \$133,500 for the years ended December 31, 2018 and 2017, respectively.

The 2009 defeasance resulted in a difference between the reacquisition price and the carrying value (\$7,725,000) of the defeased debt of \$1.5 million, which was recorded as a deferred gain. The difference between the present value of the old debt service on the debt refunded in 2009 and the new debt service resulted in an economic gain of approximately \$746,000.

The 2007 defeasance resulted in a difference between the reacquisition price and the net carrying amount of the debt of \$2.0 million, \$2.7 million and \$4.4 million on the 1998A Bonds, 2001A Bonds and 2004A Bonds, respectively. These differences, which are reported in the accompanying basic financial statements as a net deferred loss on refunding, is being charged to operations through 2033 using the straight-line method.

In August 2017, the Authority issued \$93,435,000 of Healthcare Revenue Bonds Series 2017A bearing interest from 4.0 to 5.0%. The net proceeds of the bonds were used by the Authority to purchase and cancel \$104,700,000 of the Authority's Healthcare Revenue Bonds, Series 2007A, and to pay the costs of issuance. This purchase and cancel included \$2,741,000 of principal payments related to the 2007A bonds. Principal payments on the 2017A bonds began in 2018 and continue through 2038 in amounts ranging from \$3,550,000 to \$12,305,000. Payments during 2018 for principal on the bonds were \$3,550,000. Interest is payable semiannually and payments were approximately \$4,430,000 and \$1,120,000 for the years ended December 31, 2018 and 2017, respectively.

The 2017 defeasance resulted in a difference between the reacquisition price and the carrying value (\$101,959,000) of the defeased debt of \$167,000, which was expensed. The difference between the

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

present value of the old debt service on the debt refunded in 2017 and the new debt service resulted in an economic gain of approximately \$10.3 million.

At December 31, 2018 and 2017, the unamortized net deferred loss, which includes the 2009 deferred gain noted above, was approximately \$3.8 million and \$4.1 million, respectively.

2010 and 2014 Revenue Bonds

In June 2010, the Authority issued \$29,000,000 of Healthcare Recovery Zone Facility Revenue Bonds Series 2010, bearing interest rates from 4.000% to 5.625%. The net proceeds of the bonds were used by the Authority to make a loan to an investment fund created by a tax credit investor. The investor used the proceeds of the loan, and also contributed \$10.6 million, in order to facilitate the financing of the construction of Pavilion M. Principal payments began in 2011 and continue through 2040 in amounts ranging from \$440,000 to \$1,890,000. For the years ended 2018 and 2017, principal payments were made of \$580,000 and \$555,000, respectively. Interest payments were approximately \$1,417,000 and \$1,441,000 for the years ended December 31, 2018 and 2017, respectively.

In June 2010, Pavilion M received the proceeds of six note payables to three separate CDEs related to New Market Tax Credit financing. The proceeds of this financing were used to build a 74,500 square foot four-story building on the Authority campus to house outpatient and inpatient adolescent psychiatry, a dialysis center and outpatient surgery. The notes payable have interest only payments through June 2017. During 2017, Pavilion M was dissolved as an entity and its six notes payable were forgiven. Pavilion M made interest payments of \$274,932 during 2017.

In May 2014, the Authority issued \$67,870,000 of Healthcare Revenue Bonds Series 2014A. These bonds had a net premium of \$1,146,069 which will be amortized over the life of the debt. The net proceeds of the bonds will be used to renovate the Authority's inpatient care areas and improve and construct facilities at the main healthcare campus in accordance with master facilities planning. The 2014A Bonds bear interest rates from 4.00% to 5.25%, with principal payments beginning in 2027 through 2045 ranging from \$2,000,000 to \$5,470,000. During 2018 and 2017, the Authority made interest payments of approximately \$3,334,000.

In May 2014, the Authority issued \$16,945,000 of Healthcare Revenue Bonds Taxable Services 2014B Bonds. The net proceeds of the bonds were used by the Authority to make a loan to an investment fund created by a tax credit investor. The investor used the proceeds of the loan, and also contributed \$7.3 million, in order to facilitate the financing of the construction of an outpatient and urgent care clinic in Southwest Denver. The 2014B Bonds bear interest from 1.70% to 5.15%, with principal payments beginning in 2016 and continuing through 2026 in amounts ranging from \$845,000 to \$2,255,000. For the years ended 2018 and 2017, principal payments were made of \$1,480,000 and \$2,255,000, respectively. During 2018 and 2017, the Authority made interest payments of approximately \$534,000 and \$585,000, respectively.

Debt Covenants

Per the Master Trust Indentures, the Authority's long-term debt service coverage ratio, calculated at the end of each fiscal year, cannot be less than 1.15% for the 2007, 2009, 2010, 2014 and 2017 Bonds. The Authority believes it is in compliance with these requirements.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Other Long-term Debt

In September 2007, the Authority entered into an agreement with the City to enable its acquisition of property for use in the construction and operation of a clinic providing healthcare services. The amount of the loan is \$1,200,000 due in one payment on January 1, 2026 and does not bear interest.

On February 8, 2008, the Authority signed a promissory note with the City's Office of Economic Development, as the borrower of \$4,300,000, advanced by the City, pursuant to a Loan Agreement between the Authority and the City dated December 18, 2007, in which the City received funds from the Housing and Urban Development (HUD) in connection with the Northeast Park Hill Urban Redevelopment Plan. Interest is paid quarterly at a variable interest rate on the unpaid principal balance on the first day of January, April, July and October. Beginning July 1, 2009, and on each July 1 thereafter, the Authority will make, in addition to quarterly payments of interest, payments of principal sufficient to repay amounts due under the Section 108 note. The entire unpaid balance of the principal and accrued interest will be due and payable on or before July 1, 2025. As of December 31, 2018 and 2017, the Authority has received \$4,070,181 from the City under this loan. During 2018 and 2017, the Authority paid \$260,000 and \$245,000, respectively, in principal payments to HUD. Interest and HUD fees paid on this loan for 2018 and 2017 totaled \$46,758 and \$31,387, respectively. During 2018 and 2017, \$150,868 and \$152,593, respectively, was reimbursed as a capital contribution by the City.

In 2013, the Authority elected to transition to a new information systems vendor. As part of the restructuring agreement with the prior vendor, the Authority has executed a note payable in the amount of \$18,500,000, payable from 2014 through 2020 for restructuring of the existing long-term agreement. The note carries no interest; however, the Authority has discounted the principal to the net present value based on market borrowing rates. During 2018 and 2017, the Authority accreted interest expense of approximately \$806,000 and \$1,063,000, respectively, and made principal and interest payments of approximately \$4,071,000 for both years, bringing the liability to approximately \$7,412,000 at December 31, 2018.

In July 2015, the Authority created a Colorado nonprofit corporation 601 Broadway in order to obtain financing for an administrative service building adjacent to the Authority's main campus. 601 Broadway will incur debt of approximately \$49,000,000. The Authority has funded approximately \$14,500,000 of construction costs. As of December 31, 2018, 601 Broadway had drawn debt of approximately \$48,624,000. Interest payments began on December 31, 2015. The debt bears interest at 3.9% until December 1, 2030. Thereafter the debt bears interest at a fixed rate equal to 65% of the sum of (i) the seven year U.S. Treasury Rate on December 1, 2030 plus (ii) 225 basis points. Interest on the certificates shall be computed on the basis of the actual number of days elapsed in a 360-day year consisting of twelve 30-day months. Interest costs have been capitalized as a component of construction in progress, based on interest costs of borrowing specifically used for construction of the building. Capitalized interest recorded for years ended 2018 and 2017 were \$0 and \$1,604,000 respectively. For the years ended 2018 and 2017, principal payments of approximately \$1,649,000 and \$818,000 were made, respectively. During 2018 and 2017, the Authority made interest payments of approximately \$1,824,000 and \$585,000, respectively.

In 2017, the Authority joined the Upper Midwest Consolidate Services Center by buying four shares of class A-1 stock for \$300,000. The agreement limits the Authority's ability to redeem the

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

stock for current book value, thus the stock is not considered an investment. Additionally, the agreement specifies a participation agreement of \$1.1 million. The payments are due in equal installments annually for five years. The Authority's first installment was due in 2018. This liability bears no interest.

In 2017, the Authority received \$40 million as part of a program support agreement. The monthly repayment schedule is determined based on the program's earnings before interest, depreciation, and amortization (EBIDA). In 2018 and 2017, the Authority paid approximately \$7,324,000 and \$3,668,000, respectively. This liability bears no interest. Included in the program support agreement, the Authority can be reimbursed for relocation and expansion costs related to the program payable upon the first patient at the program's new location. In 2018, the program saw its first patient at the programs new location and the Authority received \$6.1 million and recorded as a capital contribution.

In April 2018, the Authority financed the purchase of equipment for approximately \$2,500,000. The financing bears no interest. The financing has one initial payment of \$1,500,000 and monthly payments April 1, 2018 through July 1, 2020 for approximately \$38,000. During 2018, the Authority made payments of approximately \$306,000.

In August 2018, the Authority financed the purchase of equipment for approximately \$600,000. The financing bears no interest. The financing has monthly payments August 1, 2018 through July 1, 2020 for approximately \$26,000. During 2018, the Authority made payments of approximately \$129,000.

In September 2018, the Authority received a \$5.0 million loan. The loan proceeds were used to renovate the Eastside clinic. The loan bears interest of 3.0% with monthly principal payments beginning December 1, 2018 through November 1, 2023 ranging from \$64,000 to \$90,000. During 2018, the Authority made principal payments of approximately \$64,000. During 2018, the Authority made interest payments of approximately \$25,900.

In September 2018, the Authority created a Colorado nonprofit corporation 550 Acoma Inc. in order to obtain financing for a parking garage adjacent to the Authority's main campus. 550 Acoma Inc. issued \$37,815,000 in a public offering. This financing was issued as a certificate of participation (COP). These COPs had a net premium of \$3,012,526 which will be amortized over the life of the debt. The COPs bear interest from 4.00% to 5.00% with principal payments beginning December 1, 2010 through December 1, 2048 ranging from \$320,000 to \$2,350,000. Interest costs have been capitalized as a component of construction in progress, based on interest costs of borrowing specifically used for construction of the building. In 2018, approximately \$210,000 of interest expense was capitalized, and during 2018, the Authority made interest payments of approximately \$400,000.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Year-end Debt Balances

Long-term debt (including capital leases) at December 31 consisted of the following:

	Balance December 31,	
	2018	2017
Revenue Bonds, Series 2007B and Series 2009, due in increasing annual installments beginning 2007 through 2034	\$ 63,215,000	\$ 64,690,000
Revenue Bonds, Series 2010, due in increasing annual installments beginning 2011 through 2040 (net of unamortized bond discount of \$307,377 and \$321,438 as of December 31, 2018 and 2017, respectively)	24,637,623	25,203,561
Revenue Bonds, Series 2014, due in increasing annual installments beginning 2016 through 2045 (net of unamortized bond premium of \$979,752 and \$1,016,040 December 31, 2018 and 2017, respectively)	79,884,752	81,401,040
Revenue Bonds Series 2017A, due in increasing annual installments beginning 2018 through 2036 (net of unamortized bond premium of \$8,126,851 and \$8,578,343 as of December 31, 2018 and 2017, respectively).	98,011,851	102,013,343
601 Broadway notes payable	46,156,361	47,347,974
550 Acoma Inc. notes payable, net of unamortized bond premium of \$2,979,422	40,794,422	-
Program support liability	29,007,755	36,331,380
Other long-term debt	17,493,954	15,058,136
Capital lease obligations	428,003	803,580
Total current and long-term debt	399,629,721	372,849,014
Less current portion	(22,767,045)	(19,984,641)
Total long-term debt	<u>\$ 376,862,676</u>	<u>\$ 352,864,373</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Changes in Long-term Debt and Other Long-term Liabilities

Changes in long-term debt and other long-term liabilities for the years ended December 31 are as follows:

December 31, 2018	Date of Issuance	Beginning Balance	Additions and Discount/ Premium Amortization	Principal Payments or Reductions	Ending Balance	Due Within One Year
Series 2007B	May 2007	\$ 63,170,000	\$ -	\$ (1,375,000)	\$ 61,795,000	\$ 1,665,000
Series 2009	December 2009	1,520,000	-	(100,000)	1,420,000	100,000
Series 2010, net of discount	June 2010	25,203,561	14,060	(580,000)	24,637,621	615,000
Series 2014A and B, net of premium	May, 2014	81,401,040	(36,287)	(1,480,000)	79,884,753	1,290,000
Series 2017A, net of premium	August 2017	102,013,343	(451,492)	(3,550,000)	98,011,851	3,730,000
601 Broadway Notes payable	July 2015	47,347,974	457,653	(1,649,266)	46,156,361	1,669,999
550 Acoma Inc. notes payable, net of premium	September 2019	-	40,794,422	-	40,794,422	-
Program support liability	May 2017	36,331,380	-	(7,323,626)	29,007,754	6,960,000
Other long-term debt	Various	15,058,136	8,961,298	(6,525,478)	17,493,956	6,309,043
Capital leases	Various	803,580	-	(375,577)	428,003	428,003
Compensated absences liability		29,104,541	-	(993,108)	28,111,433	27,974,852
Postemployment benefits, restated		21,158,754	2,888,706	(752,920)	23,294,540	-
Total		<u>\$ 423,112,309</u>	<u>\$ 52,628,360</u>	<u>\$ (24,704,975)</u>	<u>\$ 451,035,694</u>	<u>\$ 50,741,897</u>

December 31, 2017	Date of Issuance	Beginning Balance	Additions and Discount/ Premium Amortization	Principal Payments or Reductions	Ending Balance	Due Within One Year
Series 2007A and B, net of discount	May 2007	\$ 167,757,152	\$ 4,249	\$ (104,591,401)	\$ 63,170,000	\$ 1,375,000
Series 2009	December 2009	2,140,000	-	(620,000)	1,520,000	100,000
Series 2010, net of discount	June 2010	25,744,501	14,060	(555,000)	25,203,561	580,000
Series 2014A and B, net of premium		83,692,327	(36,287)	(2,255,000)	81,401,040	1,480,000
Series 2017A, net of premium	August 2017	-	102,013,343	-	102,013,343	3,550,000
Pavilion M notes payable	June 2010	37,607,050	-	(37,607,050)	-	-
601 Broadway Notes payable	July 2015	31,477,163	16,689,251	(818,440)	47,347,974	1,684,636
Program support liability	May 2017	-	40,000,000	(3,668,620)	36,331,380	6,288,000
Other long-term debt	Various	17,431,434	1,943,128	(4,316,426)	15,058,136	4,551,429
Capital leases	Various	1,220,469	-	(416,889)	803,580	375,576
Compensated absences liability		25,527,904	3,576,637	-	29,104,541	28,966,549
Postemployment benefits		6,559,526	1,489,929	(475,200)	7,574,255	-
Total		<u>\$ 399,157,526</u>	<u>\$ 165,694,310</u>	<u>\$ (155,324,026)</u>	<u>\$ 409,527,810</u>	<u>\$ 48,951,190</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Debt Service Requirements

Annual debt service requirements to maturity for the healthcare revenue bonds, capital leases and other long-term debt are as follows at December 31:

Year Ending December 31,	Principal	Interest	Interest Rate Swaps, Net	Total
2019	\$ 22,250,547	\$ 10,078,215	\$ 1,075,643	\$ 33,404,405
2020	22,542,244	12,400,873	1,086,431	36,029,548
2021	19,044,856	11,823,181	1,089,944	31,957,981
2022	19,362,936	11,433,271	997,503	31,793,710
2023	14,042,453	11,022,334	908,349	25,973,136
2024-2028	83,685,739	45,001,174	3,386,985	132,073,898
2029-2033	109,381,247	44,016,144	1,456,168	154,853,559
2034-2038	62,966,051	17,453,596		80,419,647
2039-2043	32,225,000	2,731,838	-	34,956,838
2044-2048	<u>2,350,000</u>	<u>-</u>	<u>-</u>	<u>2,350,000</u>
Total long-term debt payments	387,851,073	<u>\$ 165,960,626</u>	<u>\$ 10,001,023</u>	<u>\$ 563,812,722</u>
Unamortized discount on 2010B Bonds	(307,377)			
Unamortized premium on 2014 A Bonds, 2017A Bonds and 550 Acoma Inc. notes payable	<u>12,086,025</u>			
Total carrying amount of long-term debt	<u>\$ 399,629,721</u>			

The net swap payments were calculated using rates as of December 31, 2018 and making assumptions regarding interest rate changes between 2018 and 2033. As rates vary, variable rate bond interest payments and net swap payments will vary.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Note 9: Managed Care Initiatives

DH Medicaid Choice

Effective May 1, 2004, the Authority entered into a prepaid provider contract with HCPF, to provide healthcare to Medicaid members enrolled in the State's Primary Care Provider (PCP) program, and formerly capitated with the Authority through Rocky Mountain Health Maintenance Organization (HMO). This program, DH Medicaid Choice, started in 2004. This program is a prepaid provider contract, not an HMO. Effective September 1, 2018, the responsibility of the Medicaid Choice contract shifted from the Authority to the Plan. This shift was the result of HCPF's launch of RAE and to incorporate the DH Medicaid Choice contract directly into RAE. Denver County is the sole county in RAE 5 which is operated by COA.

The Authority is at full risk for all covered benefits, including outpatient pharmacy and authorized care provided at non-Authority care sites, for all members assigned to it.

Capitation from the State of Colorado HCPF is recognized as revenue during the period in which the Authority is obligated to provide services to these designated members. For services rendered by non-Authority providers to eligible members, the Authority pays in accordance with Medicaid fee schedules or contracted rates.

The cost of healthcare services is accrued in the period in which treatment was provided to a member, based in part on estimates, including an accrual for claims Incurred But Not Reported (IBNR). The Authority maintains reinsurance coverage for inpatient claims above \$250,000 in 2018 and 2017, subject to certain per diem limitations. For services rendered by the Authority, the gross charges are included in patient service revenue prior to contractual adjustments, and are also included in deductions from revenue as contractual adjustments.

For the periods including January through August, 2018 and January through December 31, 2017, net capitation revenue after reinsurance, before administrative fees for this initiative totaled approximately \$136,500,000 and \$218,000,000, respectively.

Pharmacy claims, and costs for non-Authority care, including IBNR accruals for the same periods totaled approximately \$40,551,000 and \$64,896,000, respectively. These amounts are included in managed care outside provider claims.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

The Authority establishes liabilities for both reported and unreported medical and hospital expenses related to DH Medicaid Choice, which includes estimates of both future payments of claims and related claim adjustment expenses. Changes in the aggregate liability during the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Unpaid claims and claim adjustment expenses, beginning of year	<u>\$ 10,905,000</u>	<u>\$ 9,235,000</u>
Included claims and claim adjustment expenses		
Provision for insured events of the current year	43,604,402	67,872,453
Decrease in provision for insured events of prior years	<u>(7,813,031)</u>	<u>(2,617,324)</u>
Total incurred claims and claim adjustment expenses	<u>35,791,371</u>	<u>65,255,129</u>
Payments		
Claims and claim adjustment expenses attributable to insured events of the current year	41,726,755	58,057,727
Claims and claim adjustment expenses attributable to insured events of prior year	<u>2,825,616</u>	<u>5,527,402</u>
Total payments	<u>44,552,371</u>	<u>63,585,129</u>
Unpaid claims and claim adjustment expenses, end of year	<u><u>\$ 2,144,000</u></u>	<u><u>\$ 10,905,000</u></u>

Included claims and claim payments directly above do not include billed charges of approximately \$237 million during the first eight months of 2018 and \$324 million for 2017, for the cost of care provided at the Denver Health Medical Center for DH Medicaid Choice members.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Denver Health Medical Plan, Inc. – Discretely Presented Component Unit

The Plan is a Colorado HMO whose enrollment includes employees of the Authority, the City, retirees enrolled with the Denver Employees Retirement Plan (DERP), and Child Health Plan Plus participants. In 2006, the Plan became licensed as a Special Needs Medicare Advantage Prescription Drug Plan provided to residents of Denver County, Colorado. At December 31, 2018 and 2017, there were 101,660 and 29,002 members enrolled in the Plan, respectively. Approximately 12% and 40% of Plan enrollment originated through Authority employee enrollment during 2018 and 2017, respectively. The Plan is presented as a discretely presented component unit. There have been no eliminations of 2018 or 2017 financial transactions between the Plan and the Authority on either the Authority's statements of net position or the Authority's statements of revenues, expenses and changes in net position.

The Plan recognizes premiums from subscribing groups as revenue in the period to which healthcare coverage relates. Premiums earned include premiums from the Authority for the years ended December 31, 2018 and 2017 of approximately \$74,760,000 and \$70,061,000, respectively. Such premiums are included in the accompanying statements of revenues, expenses and changes in net position as premiums earned. Excess risk insurance is maintained by the Plan for inpatient claims in excess of \$300,000 per patient per year on non-Medicaid lines and \$250,000 per patient per year on the Medicaid line in 2018 and \$250,000 in 2017, subject to certain per diem limits.

A significant portion of healthcare services are provided by the Authority, for which the Authority is reimbursed on a capitated or fee-for-service basis, depending on the healthcare network chosen by the member. For the years ended December 31, 2018 and 2017, respectively, the Plan incurred capitation expense to the Authority totaling approximately \$71,737,000 and \$27,306,000, and fee-for-service claims of approximately \$49,094,000 and \$45,508,000.

At December 31, 2018 and 2017, the Plan has a capital contribution from the Authority of \$500,000, which is restricted and invested in a long-term investment held jointly by the Plan and the Colorado Division of Insurance. This contribution is included in the Authority's receivable from the Plan, which when combined with other amounts due, totals approximately \$6.9 million and \$3.9 million as of December 31, 2018 and 2017, respectively. The Plan has no employees, and is managed by employees leased from the Authority. In addition, the Plan pays the Authority certain other administrative expenses. The amounts paid by the Plan to the Authority for management services and other expenses totaled approximately \$6,517,000 for 2018 and \$6,510,000 for 2017.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

The Plan establishes liabilities for both reported and unreported medical and Authority expenses, which includes estimates of both future payments of claims and related claim adjustment expenses. Changes in the aggregate liability during the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Unpaid claims and claim adjustment expenses, net of reinsurance, beginning of year	\$ 19,845,730	\$ 15,539,578
Incurred claims and claim adjustment expenses, net of reinsurance recoveries		
Provision for insured events of the current year	228,170,621	147,724,726
Decrease in provision for insured events of prior years	(549,738)	(1,739,210)
Total incurred claims and claim adjustment expenses, net of reinsurance recoveries	227,620,883	145,985,516
Payments, net of reinsurance recoveries		
Claims and claim adjustment expenses attributable to insured events of the current year	231,963,015	155,661,404
Claims and claim adjustment expenses attributable to insured events of prior year	(18,209,460)	(13,982,040)
Total payments, net of reinsurance recoveries	213,753,555	141,679,364
Unpaid claims and claim adjustment expenses, net of reinsurance, end of year	\$ 33,713,058	\$ 19,845,730

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Note 10: Operating Lease Commitments

The Authority leases certain property and equipment under noncancelable operating leases; expire in various years through 2028. Future minimum lease payments under noncancelable operating leases as of December 31, 2018 are as follows:

Year Ending December 31,	Minimum Operating Lease Payments
2019	\$ 3,617,752
2020	3,425,329
2021	3,104,938
2022	2,653,323
2023	2,548,885
Thereafter	<u>4,810,858</u>
	<u><u>\$ 20,161,085</u></u>

Rental expense under noncancelable operating leases totaled approximately \$4,748,000 and \$5,052,000 for the years ended December 31, 2018 and 2017, respectively.

Note 11: Pension Plan

Plan Description

Certain employees of the Authority as well as other nonuniformed employees of the City and certain related agencies, including employees leased to the Authority, participate in DERP. DERP is a cost-sharing multiple-employer defined benefit pension plan established by the City to provide pension benefits for its employees. DERP is no longer available to Authority employees hired January 1, 2001 or later. As a result, the Authority established an Enhanced Defined Contribution Plan. Authority employees hired prior to January 1, 2001 have the option to elect to drop their DERP participation and join the Enhanced Defined Contribution Plan, which is described in Note 15. Sections 18.401 through 18.430.7 of the City's Revised Municipal Code establish the plan and provide complete information on DERP. DERP issues a publicly available financial report that includes financial statements and required supplementary information. That report is available by either contacting DERP at 777 Pearl Street, Denver, Colorado 80203 or on the Internet at www.derp.org.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Benefits Provided

DERP provides retirement benefits plus death and disability benefits for its members and their beneficiaries. Participants who retire at or after age 65 or age 55 if the sum of age plus credited service is 75 or more (rule of 75) are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to as much as 2% of their final average salary, for each year of credited service. Final average salary is the average salary based on the employee's highest salary in a 36-consecutive month period of credited service. Employees with five years of credited service may retire at or after age 55 and receive a reduced retirement benefit. Benefit and contribution provisions are determined annually by an independent actuary, recommended by DERP's board, and enacted into ordinance by the Denver City Council.

Contributions

During 2018, combined employer and employees' contributions to DERP were 20.5% (12.5% employer and 8.0% employees) of applicable salaries, of which 19.30% was for pension benefits and 1.20% was for health benefits. During 2017, combined employer and employees' contributions to the Plan were 19.5% (11.5% employer and 8.0% employees) of applicable salaries, of which 18.34% was for pension benefits and 1.16% was for health benefits.

Effective January 1, 2001 and until October 1, 2003, active members of DERP who were eligible for a normal or rule of 75 retirement could choose to enter the Deferred Retirement Option Plan (DROP) for a maximum of four years. While participating in DROP, the member continues to work for the employer, earning a regular salary. The member's monthly retirement benefits are deposited into a DROP account maintained by DERP. The balance in a member's DROP account earns interest at a rate equal to the actuarial assumed rate of return. Sections 18-422 through 18-429 of the Revised Municipal Code of the City and County of Denver should be referred to for more complete information on DROP. Upon retirement, members have access to the funds accumulated during their participation in DROP.

Employer-made Contributions Based on the Legally Required Rates

Total annual employee and employer contributions to DERP by the Authority in 2018 and 2017 were approximately \$6,544,000 and \$9,503,000, respectively. This represents 1.26% in 2018 and 1.9% in 2017 of the Authority's total payroll of all employees. Authority contributions (employer only) to DERP for the years ended December 31, 2018 and 2017 were \$6,392,749 and \$6,482,903, respectively. The Authority's total payroll for all employees was approximately \$520,790,000 and \$509,226,000 for 2018 and 2017, respectively.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2018 and 2017, the Authority reported a liability of \$105,588,100 and \$120,035,324, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and 2016 and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of December 31, 2016 and 2015, respectively, rolled forward to December 31, 2017 and 2016, respectively. The

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Authority's proportion of the net pension liability was based on actual contributions of the Authority to the pension plan relative to the actual contributions of all participating employers for the measurement period. At December 31, 2017, the Authority's proportion was 9.00%, which was a decrease of .84% from its proportion measured as of December 31, 2016. At December 31, 2016, the Authority's proportion was 9.84%, which was a decrease of .33% from its proportion measured as of December 31, 2015.

For the years ended December 31, 2018 and 2017, the Authority recognized pension expense of approximately \$9,475,000 and \$12,686,000, respectively. At December 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Year Ended December 31, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between project and actual earning on pension plan investments	\$ -	\$ 9,241,862
Assumption changes	5,592,813	-
Changes between expected and actual experience	7,935,980	-
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	-	8,459,603
Authority's contributions subsequent to the measurement date	6,392,748	-
Total	<u>\$ 19,921,541</u>	<u>\$ 17,701,465</u>
Year Ended December 31, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between project and actual earning on pension plan investments	\$ 13,541,914	\$ -
Assumption changes	3,174,010	-
Changes between expected and actual experience	2,467,576	-
Changes in proportion and difference between the Authority's contributions and proportionate share of contributions	-	5,807,121
Authority's contributions subsequent to the measurement date	6,482,903	-
Total	<u>\$ 25,666,403</u>	<u>\$ 5,807,121</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

At December 31, 2018, the Authority reported \$6,392,743, as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to pensions will be recognized in pension expense as follows:

Year Ended	
2019	\$ 1,574,639
2020	100,501
2021	(3,036,017)
2022	(2,811,795)
	<u>\$ (4,172,672)</u>

Actuarial Assumptions

The total pension liability in the December 31, 2016 and 2015, actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

2016		
Inflation	2.50%	
Salary increases	3.00%	Average, including inflation
Ad Hoc cost of living adjustments	0.00%	Average
Investment rate of return	7.50%	Net of pension plan investment expense, including inflation
2015		
Inflation	2.75%	
Salary increases	3.25%	Average, including inflation
Ad Hoc cost of living adjustments	0.00%	Average
Investment rate of return	7.75%	Net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected Via Scale AA to 2020, with multipliers specified to Gender and Payment Status of Employee as appropriate with adjustments for mortality improvements.

The actuarial assumptions used in the December 31, 2016 and 2015 valuations were based on the results of an actuarial experience study as of January 1, 2008 through December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Equities	22.50%	
Large Cap	12.00%	4.90%
Large Cap Value	3.50%	5.30%
Large Cap Growth	3.50%	4.70%
Small Cap Value	2.20%	5.50%
Small Cap Growth	1.30%	5.00%
International Equity	23.50%	
International Large Cap	2.00%	5.80%
International Large Cap Value	4.00%	6.30%
International Large Cap Growth	4.00%	5.50%
International Small Cap Value	5.50%	6.00%
Emerging Markets	8.00%	7.80%
Fixed Income	20.50%	
Governments	5.00%	0.60%
Core Fixed Income	6.50%	1.10%
Emerging Market Debt	2.50%	4.60%
Private Debt	4.00%	7.50%
Distress Debt	2.50%	7.50%
Real Estate	8.00%	
Non-Core Real Estate	3.20%	5.90%
Core Real Estate	4.80%	4.10%
Alternatives	25.50%	
Hedge Funds	5.00%	2.60%
MLP	7.00%	7.20%
Private Equity	7.00%	7.50%
Private Energy	5.50%	7.30%
Timber	1.00%	3.60%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.50% and 7.75% for the years ended December 31, 2018 and 2017, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The Authority's proportionate share of the net pension liability at December 31, 2018 has been calculated using a discount rate of 7.50%. The following presents the Authority's proportionate share of the net pension liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Authorities proportionate share of the net pension liability	\$ 137,632,419	\$ 105,588,100	\$ 78,400,765

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued DERP financial report.

Note 12: Postemployment Benefits Other Than Pensions

The Authority participates in two defined benefit other postemployment benefits plans: OPEB benefits under DERP and the Healthcare Premium Supplement Plan (see Note 13).

In 2018, the Authority changed its method of presentation and disclosure related to these benefit plans in accordance with GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for measuring the recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense as it pertains to the Authority's participation in other postemployment benefit plans.

The implementation of GASB 75 resulted in a restatement of beginning net position at January 1, 2018 of \$13.6 million of which \$6.2 million was related to the OPEB benefits under DERP and \$7.4 million related to the Healthcare Premium Supplement Plan discussed in Note 13. Financial statements for 2017 have not been restated for the adoption of GASB 75 because information on benefit items calculated in accordance with GASB 75 was not available, thus making restatement of 2017 financial statements not practical.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

A summary of the OPEB items as of and for the year ended December 31, 2018 is as follows:

	DERP	Healthcare Premium Supplement Plan	Total
OPEB liability	\$ 5,816,322	\$ 17,478,218	\$ 23,294,540
Deferred outflows of resources	289,933	1,209,247	1,499,180
Deferred inflows of resources	781,380	-	781,380
Expense	116,000	1,948,000	2,064,000

OPEB Benefits Under DERP

Plan Description

Certain employees of the Authority as well as other nonuniformed employees of the City and certain related agencies, including employees leased to the Authority, participate in DERP. DERP is a cost-sharing multiple-employer defined benefit pension plan established by the City to provide pension benefits for its employees. These benefits include health benefits and are considered an OPEB benefit. DERP is no longer available to Authority employees hired January 1, 2001 or later. As a result, the Authority established the Healthcare Premium Supplement Plan (see Note 13). Authority employees hired prior to January 1, 2001 have the option to elect to drop their DERP participation and join the Enhanced Defined Contribution Plan, which is described in Note 15. Sections 18.401 through 18.430.7 of the City's Revised Municipal Code establish the plan and provide complete information on DERP. DERP issues a publicly available financial report that includes financial statements and required supplementary information. That report is available by either contacting DERP at 777 Pearl Street, Denver, Colorado 80203 or on the Internet at www.derp.org.

Benefits Provided

The health benefits' account was established by City Ordinance in 1991 to provide, beginning January 1, 1992, postemployment healthcare benefits in the form of a premium supplement to retired members, their spouses and dependents, spouses and dependents of deceased active and retired members, and members of the Plan awaiting approval of retirement applications. During 2018 and 2017, the monthly health insurance premium supplement was \$12.50 per year of service for retired participants under the age of 65, and \$6.25 per year of service for retirees aged 65 and older. The health insurance premium supplement can be applied to the payment of medical, dental, and/or vision insurance premiums. The benefit recipient pays any remaining portion of the premiums.

Before consideration of the premium supplement or premiums paid by the employer, the premiums charged to retirees are the same as charged to active employees for the same coverage. This results in an implicit rate subsidy, which is considered another postemployment benefit (OPEB).

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Employer-made Contributions Based on the Legally Required Rates

Total annual contributions to DERP by the Authority for postemployment healthcare benefits were approximately \$290,000 for 2018. This represents 0.06% of the Authority's total payroll for 2018.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the Authority reported a liability of \$5,816,322, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of December 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to December 31, 2017. The Authority's proportion of the net OPEB liability was based on actual contributions of the Authority to the OPEB plan relative to the actual contributions of all participating employers for the measurement period. At December 31, 2017, the Authority's proportion was 6.33%, which was a decrease of .72% from its proportion measured as of December 31, 2016.

For the year ended December 31, 2018, the Authority recognized OPEB expense of approximately \$116,000. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Year Ended December 31, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 274,581
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	-	506,799
Authority's contributions subsequent to the measurement date	289,933	
Total	<u>\$ 289,933</u>	<u>\$ 781,380</u>

At December 31, 2018, the Authority reported \$289,933, as deferred outflows of resources related to the DERP OPEB resulting from Authority contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to the DERP OPEB will be recognized in expense as follows:

Denver Health and Hospital Authority
Notes to Financial Statements
December 31, 2018 and 2017

<u>Year Ended</u>	
2019	\$ (259,515)
2020	(259,515)
2021	(193,704)
2022	(68,646)
	<u>\$ (781,380)</u>

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued DERP financial report.

Actuarial Assumptions

The total OPEB liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

<u>2016</u>		
Inflation	2.50%	
Salary increases	3.00% - 7.00%	Average, including inflation
Investment rate of return	7.50%	Net of OPEB plan investment expense, including inflation
Experience study		Conducted in 2013 covering the 5-year period of January 1, 2008 to December 31, 2012

Mortality rates were based on the RP-2000 Combined Mortality Table Projected Via Scale AA to 2020, with multipliers specific to Gender and Payment Status of Employee as appropriate with adjustments for mortality improvements.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
U.S. Equities	22.50%	
Large Cap	12.00%	4.90%
Large Cap Value	3.50%	5.30%
Large Cap Growth	3.50%	4.70%
Small Cap Value	2.20%	5.50%
Small Cap Growth	1.30%	5.00%
International Equity	23.50%	
International Large Cap	2.00%	5.80%
International Large Cap Value	4.00%	6.30%
International Large Cap Growth	4.00%	5.50%
International Small Cap Value	5.50%	6.00%
Emerging Markets	8.00%	7.80%
Fixed Income	20.50%	
Governments	5.00%	0.60%
Core Fixed Income	6.50%	1.10%
Emerging Market Debt	2.50%	4.60%
Private Debt	4.00%	7.50%
Distress Debt	2.50%	7.50%
Real Estate	8.00%	
Non-Core Real Estate	3.20%	5.90%
Core Real Estate	4.80%	4.10%
Alternatives	25.50%	
Hedge Funds	5.00%	2.60%
MLP	7.00%	7.20%
Private Equity	7.00%	7.50%
Private Energy	5.50%	7.30%
Timber	1.00%	3.60%
Total	100.00%	

Discount Rate

The discount rate used to measure the total net OPEB liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that participating employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The Authority's proportionate share of the net OPEB liability at December 31, 2018 has been calculated using a discount rate of 7.50%. The following presents the Authority's proportionate share of the net OPEB liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Authorities proportionate share of the net pension liability	\$ 6,548,580	\$ 5,816,322	\$ 4,733,803

As this plan is paid at a fixed dollar value, there is not an actuarially adjusted value for healthcare costs and thus Healthcare Cost Trend Rates are not applicable to this plan.

Note 13: OPEB – Healthcare Premium Supplement Plan

The Denver Health and Hospital Authority Healthcare Premium Supplement Plan (the Supplement Plan) was established in January 1, 2001 and is administered by the Authority as a single-employer defined benefit OPEB plan. Any employee of the Authority is eligible for healthcare premium supplement payments if the employee: (1) has attained the age of at least 55; (2) retires and commences benefits under the Enhanced Defined Contribution Plan (see Note 15) after completing at least 10 years of service; and (3) has been eligible to receive enhanced benefits under the Enhanced Defined Contribution Plan for at least 10 full years beginning on or after January 1, 2001.

The Plan was amended effective January 1, 2011, so that the benefits provided can be used for any allowable healthcare expense or premium. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. The Supplemental Plan does not issue a separate report that includes financial statements and required supplementary information for the OPEB Plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

The total lifetime benefit paid by the Supplement Plan is based on years of service as follows:

Years of Services	Total Benefit
10 - 14	\$ 14,400
15 - 19	21,600
20 - 24	28,800
25 - 29	36,000
30 - 34	43,200

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Each additional five-year increment above year 34 results in an additional \$7,200 benefit. The employees covered by the benefit terms of the Supplement Plan at December 31, 2017 are:

	2017
Inactive employees or beneficiaries currently receiving benefit payments	\$ -
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	5,851
	<u>\$ 5,851</u>

Under GASB 75, unfunded plans must use a discount rate that reflects a 20-year tax-exempt municipal bond yield or index rate. The Authority used the Bond Buyer 20-year General Obligation Bond Index. The discount rate was 3.44% (3.78% in prior year).

Members are not required to contribute to the Supplement Plan. For the years ended December 31, 2018 and 2017, the Authority funded approximately \$640,800 and \$475,000, respectively, to a third-party beneficiary for retirees qualified for the benefit and retiring after 2010. Otherwise, the Supplement Plan is unfunded as of December 31, 2018. However, any eligible retirees retiring in the future will have their lifetime benefit deposited with a third-party administrator in the year in which they retire.

OPEB Liabilities, OPEB Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2018, the Authority reported a liability of \$17,478,218, for its total OPEB Supplement liability. The total OPEB Supplement liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date. Changes in the total OPEB liability for the year ended December 31, 2018 is as follows:

	2018
Total OPEB Liability	
Balance at beginning of year	\$ 15,436,559
Changes for the year	
Service cost	1,249,750
Interest on total OPEB liability	621,845
Differences between expected and actual experience	53,559
Changes of assumptions or other inputs	591,705
Benefit payments	(475,200)
	<u>\$ 17,478,218</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

For the year ended December 31, 2018, the Authority recognized OPEB expense of approximately \$1,948,000. At December 31, 2018 the Authority reported deferred outflows of resources and deferred inflows of resources related to the Supplement Plan from the following sources:

Year Ended December 31, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 47,183	\$ -
Changes of assumptions	521,264	-
Authority's benefit payments subsequent to the measurement date	640,800	-
Total	<u>\$ 1,209,247</u>	<u>\$ -</u>

At December 31, 2018, the Authority reported \$640,800, as deferred outflows of resources related to the Supplement Plan resulting from Authority benefit payments subsequent to the measurement date that will be recognized as a reduction of the OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2018, related to the Supplement Plan will be recognized in expense as follows:

Year Ended	
2019	\$ 76,817
2020	76,817
2021	76,817
2022	76,817
2023	76,817
Thereafter	184,362
	<u>\$ 568,447</u>

Actuarial Assumptions

The Supplement Plan OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

2018		
Inflation	2.50%	
Salary increases	3.25%	Average, including inflation
Discount rate	3.44%	(3.78% in prior years)

Mortality rates were based on the RP-2014 Employee Table with generational projection using scale MP-2016.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

The actuarial cost method was Entry Age Normal Level Percent of Pay.

Sensitivity of the Authority's Total OPEB Liability to Changes in the Discount Rate

The Authority's OPEB Supplement liability at December 31, 2018 has been calculated using a discount rate of 3.44%. The following presents the Authority's proportionate share of the net OPEB liability calculated using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Net OPEB Liability	\$ 19,363,032	\$ 17,478,218	\$ 15,805,917

As this plan is paid at a fixed dollar value, there is not an actuarially adjusted value for healthcare costs and thus Healthcare Cost Trend Rates are not applicable to this plan.

Note 14: Deferred Compensation Plan

The Authority offers their employees deferred compensation plans created in accordance with Code Section 457. The plans are available to all Authority employees and permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees or their beneficiaries until termination, retirement, death, or approval for hardship cases.

The Authority's plan is administered and operated by the Authority through a Board Retirement Plan Committee. A trust agreement was established between the Authority and a third party to hold and invest the plan assets and for assistance in administering the plan.

The assets of the plans are held irrevocably by a third-party administrator; consequently, neither the assets nor liabilities are reflected in the accompanying basic financial statements of the Authority.

Note 15: Defined Contribution Plan and Enhanced Defined Contribution Plan

The Denver Health and Hospital Authority 401(a) Defined Contribution Plan (Defined Contribution Plan) was established to extend benefits to employees in lieu of those benefits provided by the Social Security Act, as allowed by Colorado Revised Statutes Section 24-54-101. The plan was created in accordance with Code Sections 401 and 501. Benefits are not available to employees or their beneficiaries until retirement or death. Employees are required to contribute 6.2% of base compensation to the Defined Contribution Plan. The Authority has elected to contribute 3% of base compensation as a matching contribution. The contributions are not to exceed the maximum permissible amounts of the social security tax.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Because employees hired subsequent to January 1, 2001 are not eligible to participate in DERP, the Enhanced Defined Contribution Plan was established as a benefit to these Authority employees. Authority employees hired prior to January 1, 2001 may exercise an option to drop DERP participation and join the Enhanced Defined Contribution Plan.

Through August 23, 2015, the Authority elected to contribute 6.0% of eligible compensation up to the maximum compensation allowable by the Internal Revenue Service as an enhanced additional contribution. Effective August 23, 2015, the Authority amended the Enhanced Defined Contribution Plan to change the 6.0% enhanced contribution as follows:

- For employees hired after August 23, 2015, to contribute a 3.0% enhanced contribution that is subject to a three year vesting period.
- To contribute up to an additional 3.5% enhanced contribution, also subject to a three year vesting period, that is matched 100% to the percent of eligible wages the employee voluntarily defers and contributes to the Authority's 457 Deferred Compensation Plan.
- Employees hired on or before August 23, 2015 continue to be immediately vested in all employee and employer contributed balances.

Total annual contributions to the Defined Contribution Plan and the Enhanced Defined Contribution Plan by the Authority in 2018, 2017 and 2016 were approximately \$42,420,000, \$39,796,000 and \$37,814,000, respectively. Employee contributions in 2018, 2017 and 2016 were approximately \$31,965,000, \$30,009,000 and \$28,727,000, respectively.

A trust agreement was established between the Authority and a third party to hold and invest plan assets and to assist in administering the plans. These plan assets are not recorded in the Authority's basic financial statements.

Note 16: Supplemental Executive Retirement Plan

In 2014, the Authority created a Supplemental Executive Retirement Plan (SERP Plan) for the purpose of providing deferred compensation for a select group of executive managers. The SERP Plan is an unfunded, non-qualified deferred compensation arrangement under Section 457(f) of the Internal Revenue Code. The effective date of the SERP Plan was January 1, 2014. In January 2015 and February 2016, the Authority contributed to a Rabbi Trust retirement account an amount equal to 5% of the executive base pay, and 10% of the base pay of the Chief Executive Officer of the Authority. Participants become vested to the contribution three calendar years after the contribution, or the year in which they turn 65 years of age, whichever is sooner. Distributions are made annually in February of each year to vested participants. As of December 31, 2018 and 2017, in the amounts of approximately \$56,000 and \$28,000, respectively, for participants meeting vesting requirements but has not been paid as of year-end. Executive managers participating in DERP are not eligible to be included in the SERP Plan.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Note 17: Risk Management

The Authority is exposed to various risks and losses related to torts, theft, damage or destruction of assets, errors and omissions, natural disasters, property damage, workers' compensation, auto liability, and unemployment.

The Authority is covered under the limits of the Colorado Governmental Immunity Act. For 2018, in tort litigation covered by the Colorado Governmental Immunity Act, injury to one person in any single occurrence is limited to the amount of \$387,000, and for injury to two or more persons in a single occurrence, the limitation is \$1,093,000 with the stated limitation that no person may recover in excess of \$387,000. With respect to malpractice liability, the Authority carries excess healthcare professional and general liability coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a self-insured retention amount of \$250,000. In addition, the Authority carries an umbrella policy with limits of \$5,000,000 per occurrence and \$5,000,000 in the aggregate. The Authority carries a separate professional liability policy to cover physicians who provide services under contract with the Authority. This policy provides coverage with limits of \$1,000,000 per occurrence and \$3,000,000 in the aggregate.

The amount of medical malpractice and other liability was \$5,036,063 and \$4,580,262 for the years ended December 31, 2018 and 2017, respectively. The Authority relied upon an actuarial estimate of the medical malpractice to record IBNR losses and loss adjustment expenses. A discount rate of 3.0% was applied to the actuarially determined liability as of December 31, 2018. Changes in the reported liability for the years ended December 31, 2018 and 2017 are as follows:

	Beginning Balance	Provision and Changes in Estimates	Claims Paid	Ending Balance
2017	\$ 4,483,667	\$ 834,516	\$ (737,921)	\$ 4,580,262
2018	\$ 4,580,262	\$ 3,323,136	\$ (2,867,335)	\$ 5,036,063

The Authority carries a separate healthcare professional and general liability policy to cover the Authority's healthcare services provided in the City's jail medical facilities. This policy provides coverage in the amount of \$1,000,000 per occurrence and \$3,000,000 in the aggregate with a self-insured retention of \$150,000. A second policy provides excess umbrella liability coverage in the jail medical facilities in the amount of \$5,000,000 per occurrence and \$5,000,000 in the aggregate.

For other types of risk, the Authority generally carries commercial policies with deductibles ranging from \$50,000 to \$600,000 and limits of \$1,000,000 to \$10,000,000.

On January 1, 2002, the Authority was issued a "self-insurance permit" by the Colorado Department of Labor and Employment, Division of Workers' Compensation, which allows the Authority to be its own insurance carrier for workers' compensation risk. The Authority carries an excess workers' compensation insurance policy with a self-insured retention limit of \$600,000. At December 31, 2018 and 2017, the amount of workers' compensation liability was \$3,584,744 and \$3,322,207, respectively. This liability is based on actuarial estimates of the workers'

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

compensation to record IBNR losses and loss adjustment expenses. Changes in the reported liability for the years ended December 31, 2018 and 2017 are as follows:

	Beginning Balance	Provision and Changes in Estimates	Claims Paid	Ending Balance
2017	\$ 3,659,641	\$ 1,771,595	\$ (2,109,029)	\$ 3,322,207
2018	\$ 3,322,207	\$ 1,991,161	\$ (1,728,624)	\$ 3,584,744

There were no significant reductions in insurance coverage from the prior year. There have been no claim settlements in excess of insurance coverage in the last three years. In the opinion of the Authority's legal counsel and management, resolution of actions relating to the Authority will not have a material effect on the Authority's financial position or results of operations.

Note 18: Contingencies

Cost Report

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures. Such audits could lead to reimbursement to the grantor agencies. The Authority has recorded all known and estimable liabilities related to such issues. Management believes unrecorded disallowances, if any, will not be significant.

Taxpayer Bill of Rights

The Authority believes it is exempt from the provisions of Article X, Section 20 of the Colorado Constitution Taxpayer Bill of Rights (TABOR) because the Authority is not a "district" within the meaning of Section 2(b) of TABOR. In addition, the Authority believes it is exempt from TABOR because the Authority meets the definition of an "enterprise," as defined by Section 2(d) of TABOR.

Litigation

In the normal course of operations, the Authority is at times involved in litigation related to claims made under insurance contracts, employee liability, and general liability. In the opinion of management, all known material liabilities have been recorded, and the resolution of these matters will not have a material effect on the Authority's financial position, results of operations, or liquidity.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Healthcare Policy and Financing Division

The Authority contracts with the State of Colorado HCPF to provide capitated healthcare services to Medicaid eligible participants enrolled in Medicaid Choice. Final settlement of some prior year contracts has not yet occurred. The Authority has evaluated each contract year and recorded estimates of amounts that are probable and estimable as due. Final reconciliation and settlement with HCPF may result in differing amounts.

Academic Medical Center Connection

The Authority has been a member of University HealthSystem Consortium, (UHC) a nonprofit corporation. In 2015, UHC became VHA-UHC Alliance NewCO, Inc., and subsequently changed its name to Academic Medical Center Connection (AMCC). As a member of AMCC, the Authority had rights to patronage returns, but no actual interest in the company. In April of 2015, AMCC sold substantially all of its assets and operations to Vizient, Inc. (Vizient). AMCC received cash and shares of common stock in Vizient as a result. As a result of these transactions, Vizient stock was distributed to AMCC participating patrons, which included the Authority. To receive stock shares, the Authority signed a Stockholders Agreement. The agreement limits the Authority's ability to redeem the stock for current book value based on time restrictions. In 2016, the Authority received the stock certificates but the value of the stock is at zero due to the restrictions in the agreement. The stock can only be sold back to Vizient. As such, the Authority has not recorded any financial transactions related to this.

Note 19: Commitments

The Authority entered into multiple construction contracts to remodel existing buildings and to construct new buildings during 2018 and prior. Under these contracts, the Authority has committed to pay contractors approximately \$120.8 million in future periods.

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

Note 20: Condensed Combining Financial Information

The following tables include condensed combining balance sheets information for the Authority and its blended component units as of December 31, 2018 and 2017.

	December 31, 2018				
	Total Authority	601 Broadway Inc.	CCPPS	550 Acoma Inc.	Total
Condensed Statement of Net Position					
Current assets	\$ 192,342,633	\$ 74,076	\$ (850,008)	\$ 400,124	\$ 191,966,825
Noncurrent Assets					
Capital assets, net of accumulated depreciation	447,071,114	61,961,016	-	7,979,783	517,011,913
Other long-term assets	380,887,376	-	-	23,359,934	404,247,310
Total noncurrent assets	827,958,490	61,961,016	-	31,339,717	921,259,223
Total assets	1,020,301,123	62,035,092	(850,008)	31,739,841	1,113,226,048
Deferred Outflows of Resources	35,477,186	-	-	-	35,477,186
Total assets and deferred outflows of resources	<u>\$ 1,055,778,309</u>	<u>\$ 62,035,092</u>	<u>\$ (850,008)</u>	<u>\$ 31,739,841</u>	<u>\$ 1,148,703,234</u>
Liabilities					
Current liabilities	\$ 172,921,292	\$ 1,821,673	\$ 8,380	\$ 886,952	\$ 175,638,297
Long-term liabilities	448,260,751	44,486,362	-	40,794,422	533,541,535
Total liabilities	621,182,043	46,308,035	8,380	41,681,374	709,179,832
Deferred Inflows of Resources	18,482,845	-	-	-	18,482,845
Total liabilities and deferred inflows of resources	<u>639,664,888</u>	<u>46,308,035</u>	<u>8,380</u>	<u>41,681,374</u>	<u>727,662,677</u>
Net Position					
Net investment in capital assets	171,472,396	-	-	-	171,472,396
Unrestricted	244,641,025	15,727,057	(858,388)	(9,941,533)	249,568,161
Total net position	416,113,421	15,727,057	(858,388)	(9,941,533)	421,040,557
Total liabilities and net position	<u>\$ 1,055,778,309</u>	<u>\$ 62,035,092</u>	<u>\$ (850,008)</u>	<u>\$ 31,739,841</u>	<u>\$ 1,148,703,234</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

	December 31, 2017				
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	CCPPS	Total
Condensed Statement of Net Position					
Current assets	\$ 191,680,517	\$ -	\$ 85,385	\$ (85,894)	\$ 191,680,008
Noncurrent Assets					
Capital assets, net of accumulated depreciation	438,129,164	-	63,155,387	-	501,284,551
Other long-term assets	349,356,613	-	559,883	-	349,916,496
Total noncurrent assets	787,485,777	-	63,715,270	-	851,201,047
Total assets	979,166,294	-	63,800,655	(85,894)	1,042,881,055
Deferred Outflows of Resources	42,501,994	-	-	-	42,501,994
Total assets and deferred outflows of resources	<u>\$ 1,021,668,288</u>	<u>\$ -</u>	<u>\$ 63,800,655</u>	<u>\$ (85,894)</u>	<u>\$ 1,085,383,049</u>
Liabilities					
Current liabilities	\$ 173,217,476	\$ -	\$ 1,934,015	\$ 33,513	\$ 175,185,004
Long-term liabilities	486,744,256	-	45,663,338	-	532,407,594
Total liabilities	659,961,732	-	47,597,353	33,513	707,592,598
Deferred inflows of resources	5,807,121	-	-	-	5,807,121
Total liabilities and deferred inflows of resources	665,768,853	-	47,597,353	33,513	713,399,719
Net Position					
Net investment in capital assets	160,517,460	-	-	-	160,517,460
Unrestricted	195,381,975	-	16,203,302	(119,407)	211,465,870
Total net position	355,899,435	-	16,203,302	(119,407)	371,983,330
Total liabilities and net position	<u>\$ 1,021,668,288</u>	<u>\$ -</u>	<u>\$ 63,800,655</u>	<u>\$ (85,894)</u>	<u>\$ 1,085,383,049</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

The following tables include condensed combining statements of revenues, expenses and changes in net position information for the Authority and its blended component units for the years ended December 31, 2018 and 2017.

	Year Ended December 31, 2018				
	Total Authority	601 Broadway Inc.	CCPPS	550 Acoma Inc.	Total
Operating Revenues					
Net patient service revenue	\$ 644,397,553	\$ -	\$ -	\$ -	\$ 644,397,553
Capitation earned net of reinsurance expense	136,653,112	-	-	-	136,653,112
Medicaid disproportionate share and other safety net reimbursement	148,941,660	-	-	-	148,941,660
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300
Federal, state and other grants	64,114,406	-	-	-	64,114,406
City and County of Denver purchased services	25,188,290	-	-	-	25,188,290
Poison and drug center contracts	25,349,639	-	-	-	25,349,639
Other operating revenue	43,449,851	1	583,095	-	44,032,947
Total operating revenues	1,118,871,811	1	583,095	-	1,119,454,907
Operating Expenses					
Salaries and benefits	647,029,411	-	-	-	647,029,411
Contracted services and nonmedical supplies	192,600,657	(3,462,045)	1,322,076	-	190,460,688
Medical supplies and pharmaceuticals	132,390,682	-	-	-	132,390,682
Managed care outside provider claims	38,830,457	-	-	-	38,830,457
Depreciation and amortization	52,317,986	2,169,678	-	-	54,487,664
Total operating expenses	1,063,169,193	(1,292,367)	1,322,076	-	1,063,198,902
Operating income (loss)	55,702,618	1,292,368	(738,981)	-	56,256,005
Nonoperating Revenues (Expenses)					
Increase in equity in joint venture	2,800	-	-	-	2,800
Bond issuance costs	(25,015)	-	-	(563,549)	(588,564)
Interest income	11,289,240	22	-	181,129	11,470,391
Interest expense	(13,122,304)	(1,768,635)	-	(309,237)	(15,200,176)
Net decrease in fair value of investments	(14,424,574)	-	-	-	(14,424,574)
Gain on disposition of capital assets	10,572	-	-	-	10,572
Total nonoperating revenues (expenses)	(16,269,281)	(1,768,613)	-	(691,657)	(18,729,551)
Income (loss) before capital contributions	39,433,337	(476,245)	(738,981)	(691,657)	37,526,454
Contributions Restricted for Capital Assets	34,365,148	-	-	(9,249,876)	25,115,272
Increase (decrease) in net position	73,798,485	(476,245)	(738,981)	(9,941,533)	62,641,726
Total Net Position, Beginning of Year, as Previously Reported	355,899,435	16,203,302	(119,407)	-	371,983,330
Adjustment for adoption of new accounting standard (Notes 12 and 13)	(13,584,499)	-	-	-	(13,584,499)
Total Net Position, Beginning of Year, Restated	342,314,936	16,203,302	(119,407)	-	358,398,831
Total Net Position, End of Year	<u>\$ 416,113,421</u>	<u>\$ 15,727,057</u>	<u>\$ (858,388)</u>	<u>\$ (9,941,533)</u>	<u>\$ 421,040,557</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

	Year Ended December 31, 2017				
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	CCPPS	Total
Operating Revenues					
Net patient service revenue	\$ 545,380,959	\$ -	\$ -	\$ -	\$ 545,380,959
Capitation earned net of reinsurance expense	218,010,773	-	-	-	218,010,773
Medicaid disproportionate share and other safety net reimbursement	114,752,531	-	-	-	114,752,531
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300
Federal, state and other grants	66,049,764	-	-	-	66,049,764
City and County of Denver purchased services	24,776,739	-	-	-	24,776,739
Poison and drug center contracts	22,852,467	-	-	-	22,852,467
Other operating revenue	33,029,004	841,137	-	416,802	34,286,943
Total operating revenues	1,055,629,537	841,137	-	416,802	1,056,887,476
Operating Expenses					
Salaries and benefits	628,026,525	-	-	-	628,026,525
Contracted services and nonmedical supplies	195,466,828	56,014	(2,692,011)	591,169	193,422,000
Medical supplies and pharmaceuticals	125,253,288	-	-	-	125,253,288
Managed care outside provider claims	65,258,014	-	-	-	65,258,014
Depreciation and amortization	42,504,535	1,065,674	947,471	-	44,517,680
Total operating expenses	1,056,509,190	1,121,688	(1,744,540)	591,169	1,056,477,507
Operating income (loss)	(879,653)	(280,551)	1,744,540	(174,367)	409,969
Nonoperating Revenues (Expenses)					
Increase in equity in joint venture	124,000	-	-	-	124,000
Bond issuance costs	(682,046)	-	-	-	(682,046)
Interest income	9,632,689	86	268	-	9,633,043
Interest expense	(14,118,378)	(237,069)	(266)	-	(14,355,713)
Gain (loss) on forgiveness of note payable/receivable	(29,033,152)	37,168,635	-	-	8,135,483
Gain (loss) on dissolution of DHHA Pavilion M Inc.	27,551,503	(27,551,503)	-	-	-
Net increase in fair value of investments	9,287,858	-	-	-	9,287,858
Gain on disposition of capital assets	50,857	-	-	-	50,857
Total nonoperating revenues (expenses)	2,813,331	9,380,149	2	-	12,193,482
Income (loss) before capital contributions	1,933,678	9,099,598	1,744,542	(174,367)	12,603,451
Contributions Restricted for Capital Assets	1,516,042	-	-	-	1,516,042
Increase (decrease) in net position	3,449,720	9,099,598	1,744,542	(174,367)	14,119,493
Total Net Position, Beginning of Year	352,449,715	(9,099,598)	14,458,760	54,960	357,863,837
Total Net Position, End of Year	<u>\$ 355,899,435</u>	<u>\$ -</u>	<u>\$ 16,203,302</u>	<u>\$ (119,407)</u>	<u>\$ 371,983,330</u>

Denver Health and Hospital Authority

Notes to Financial Statements

December 31, 2018 and 2017

The following tables include condensed combining statements of cash flows information for the Authority and its blended component units for the years ended December 31, 2018 and 2017.

Year Ended December 31, 2018					
	Total Authority	601 Broadway Inc.	CCPPS	550 Acoma Inc.	Total
Condensed Statement of Cash Flows					
Net cash provided by operating activities	\$ 93,585,631	\$ -	\$ 91,644	\$ -	\$ 93,677,275
Net cash provided by (used in) capital and related financing activities	(33,798,146)	19	-	-	(33,798,127)
Net cash used in investing activities	(81,399,464)	-	-	-	(81,399,464)
Net increase (decrease) in cash and cash equivalents	(21,611,979)	19	91,644	-	(21,520,316)
Cash and Cash Equivalents, Beginning of Year	46,711,577	1,070	674,065	-	47,386,712
Cash and Cash Equivalents, End of Year	<u>\$ 25,099,598</u>	<u>\$ 1,089</u>	<u>\$ 765,709</u>	<u>\$ -</u>	<u>\$ 25,866,396</u>

Year Ended December 31, 2017					
	Total Authority	DHHA Pavilion M Inc.	601 Broadway Inc.	CCPPS	Total
Condensed Statement of Cash Flows					
Net cash provided by (used in) operating activities	\$ 60,489,973	\$ (227,276)	\$ -	\$ 374,106	\$ 60,636,803
Net cash used in capital and related financing activities	(52,207,407)	-	(2)	-	(52,207,409)
Net cash provided by (used in) investing activities	(18,519,916)	-	268	-	(18,519,648)
Net increase (decrease) in cash and cash equivalents	(10,237,350)	(227,276)	266	374,106	(10,090,254)
Cash and Cash Equivalents, Beginning of Year	56,948,927	227,276	804	299,959	57,476,966
Cash and Cash Equivalents, End of Year	<u>\$ 46,711,577</u>	<u>\$ -</u>	<u>\$ 1,070</u>	<u>\$ 674,065</u>	<u>\$ 47,386,712</u>

Note 21: Subsequent Events

Subsequent events have been evaluated through March 20, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Information

THIS PAGE LEFT BLANK INTENTIONALLY

Denver Health and Hospital Authority
Schedules of Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net Pension Liability –
DERP

	2017	2016	2015	2014
Authority's proportion of the net pension liability	9.00%	9.84%	10.17%	10.79%
Authority's proportionate share of the net pension liability	\$ 105,588,100	\$ 120,035,324	\$ 119,914,669	\$ 94,527,507
Authority's covered-employee payroll	34,303,697	38,910,745	40,906,565	42,015,157
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	307.80%	308.49%	293.14%	224.98%
Plan fiduciary net position as a percentage of the total pension liability	65.49%	62.26%	62.26%	70.12%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for only those years for which information is available. Information presented in this schedule has been determined as of the Authority's measurement date (December 31 immediately preceding the Authority's most recent fiscal year-end) of the collective net pension liability in accordance with GASB 68.

The discount rate used was 7.50% for 2017, 7.75% for 2016 and 2015 and 8.00% for 2014.

Denver Health and Hospital Authority

Schedules of Required Supplementary Information

Schedule of the Authority's Pension Contributions – DERP

	2018	2017	2016	2015
Contractually required contribution	\$ 6,392,749	\$ 6,482,903	\$ 6,778,008	\$ 6,471,773
Contributions in relation to the contractually required contribution	6,392,749	6,482,903	6,778,008	6,471,773
Contribution deficiency (excess)	-	-	-	-
Authority's covered-employee payroll	31,969,649	34,303,697	38,910,745	40,906,565
Contributions as a percentage of covered-employee payroll	20.00%	18.90%	17.42%	15.81%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for only those years for which information is available. Information presented in this schedule has been determined as of the Authority's most recent fiscal year-end (December 31, 2018) in accordance with GASB 68.

Funding Valuation Date January 1, 2017

Notes Actuarially determined contribution rates are calculated as of December 31 of each year and are applicable for the follow calendar (fiscal) year.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method	Project Unit Credit
Amortization Method	Level Percentage of Payroll, Annually Established 30-Year Close Basis
Remaining Amortization Period	Approximately 27 years
Asset Valuation Method	Smoothed market
Inflation	2.50%
Salary Increase	3.00% to 7.25%
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rate that are specific to the type of eligibility condition last updated for the 2013 valuation pursuant to an experience study of the period 2008-2012.
Mortality	RP-2000 Combined Mortality Table Projected Via Scale AA to 2020. With Multiplies Specific to General and Payment Status of Employee.

Other information

Notes There were no benefit changes during the year.
As of October, 1, 2017, the valuation interest rate was lowered from 7.75% to 7.50%.

The latest experience study was conducted in 2013 covering the 5-year period of January 1, 2008 to December 31, 2012. At that time, the recommended mortality table was expected to product a margin of 8% on the retired male mortality experience and 7% on the retired female experience [Denver Employees Retirement Plan 2013 Actuarial Experience Study for the year ended December 31, 2012 Page 24, 25].

Denver Health and Hospital Authority
Schedules of Required Supplementary Information
Schedule of the Authority's Proportionate Share of the Net OPEB Liability – DERP
Last Ten Fiscal Years *

	<u>2017</u>
Authority's proportion of the net OPEB liability	6.33%
Authority's proportionate share of the net OPEB liability	\$ 5,816,322
Authority's covered payroll	\$ 34,303,697
Authority's proportionate share of the net OPEB liability as a percentage of its covered payroll	16.95%
Plan fiduciary net position as a percentage of the total OPEB liability	45.98%

This schedule is presented as of the measurement date for the fiscal year.

* Information not currently available for prior years; additional years will be displayed as they become available.

Denver Health and Hospital Authority
Schedules of Required Supplementary Information
Schedule of the Authority's OPEB Contribution – DERP
Last Ten Fiscal Years *

	<u>2018</u>
Statutorily required contribution	\$ 289,933
Contributions in relation to the statutorily required contribution	289,933
Contribution deficiency (excess)	-
Authority's covered payroll	\$ 31,969,649
Contributions as a percentage of covered payroll	1.51%

* Information not currently available for prior years; additional years will be displayed as they become available.

Denver Health and Hospital Authority
Schedules of Required Supplementary Information
Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios –
The Supplement Plan
Last Ten Fiscal Years *

	<u>2017</u>
Total OPEB Liability	
Service cost	\$ 1,249,750
Interest	621,845
Differences between expected and actual experience	53,559
Changes of assumptions or other inputs	591,705
Benefit payments	<u>(475,200)</u>
Net Change in Total OPEB Liability	2,041,659
Authority's Total OPEB Liability - Beginning	<u>15,436,559</u>
Authority's Total OPEB Liability - Ending	<u><u>\$ 17,478,218</u></u>
Covered-Employee Payroll	\$ 501,011,664
Authority's Total OPEB Liability as a Percentage of Covered-Employee Payroll	3.49%

This schedule is presented as of the measurement date for the fiscal year.

The discount rate was changed from 3.78% to 3.44%.

* Information not currently available for prior years; additional years will be displayed as they become available.

THIS PAGE LEFT BLANK INTENTIONALLY

Supplementary Information

THIS PAGE LEFT BLANK INTENTIONALLY

THIS PAGE LEFT BLANK INTENTIONALLY

Denver Health and Hospital Authority

Consolidating Schedule – Statement of Net Position Information

December 31, 2018

	The Authority								
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	601 Broadway Inc.	CCPPS	550 Acoma Inc.	Total
Assets and Deferred Outflows of Resources									
Current Assets									
Cash and cash equivalents	\$ 25,100,598	\$ -	\$ -	\$ (1,000)	\$ 25,099,598	\$ -	\$ 765,709	\$ -	\$ 25,865,307
Restricted cash and cash equivalents	-	-	-	-	-	1,089	-	-	1,089
Short-term investments	22,540,609	-	-	-	22,540,609	-	-	-	22,540,609
Patient accounts receivable, net	53,311,297	-	-	-	53,311,297	-	-	-	53,311,297
Due from other governmental entities	18,041,975	-	-	9,762,306	27,804,281	-	-	-	27,804,281
Due from City and County of Denver	4,334,645	3,595,711	8,075	-	7,938,431	-	-	-	7,938,431
Other receivables	8,396,511	128,721	3,889,184	6,979,093	19,393,509	-	-	-	19,393,509
Interest receivable	2,537,603	-	-	-	2,537,603	-	-	-	2,537,603
Due from (to) and investment in discretely presented component units	(4,685,312)	(3,891,964)	24,378,026	(7,222,910)	8,577,840	72,987	(1,615,717)	400,124	7,435,234
Inventories	11,398,356	-	-	-	11,398,356	-	-	-	11,398,356
Prepaid expenses and other assets	13,393,645	-	342,055	5,409	13,741,109	-	-	-	13,741,109
Total current assets	154,369,927	(167,532)	28,617,340	9,522,898	192,342,633	74,076	(850,008)	400,124	191,966,825
Noncurrent Assets									
Notes receivable	15,432,000	-	-	-	15,432,000	-	-	-	15,432,000
Estimated third-party payor settlements receivable	4,060,881	-	-	-	4,060,881	-	-	-	4,060,881
Equity interest in joint venture	1,228,300	-	-	-	1,228,300	-	-	-	1,228,300
Restricted investments	29,826,075	-	-	-	29,826,075	-	-	23,359,934	53,186,009
Capital assets, net of accumulated depreciation	445,783,584	1,191,742	96,727	(939)	447,071,114	61,961,016	-	7,979,783	517,011,913
Long-term investments	313,657,174	-	-	-	313,657,174	-	-	-	313,657,174
Board-designated investments	14,100,000	-	-	-	14,100,000	-	-	-	14,100,000
Other long-term assets	1,384,479	1,198,467	-	-	2,582,946	-	-	-	2,582,946
Total noncurrent assets	825,472,493	2,390,209	96,727	(939)	827,958,490	61,961,016	-	31,339,717	921,259,223
Total assets	979,842,420	2,222,677	28,714,067	9,521,959	1,020,301,123	62,035,092	(850,008)	31,739,841	1,113,226,048
Deferred Outflows of Resources									
Accumulated change in fair value of hedging derivatives	10,001,023	-	-	-	10,001,023	-	-	-	10,001,023
Deferred outflows of resources related to pension benefits	19,921,541	-	-	-	19,921,541	-	-	-	19,921,541
Deferred outflows of resources related to other postemployment benefits	1,499,180	-	-	-	1,499,180	-	-	-	1,499,180
Deferred outflow - acquisitions	243,667	-	-	-	243,667	-	-	-	243,667
Loss on refunding of debt	3,811,775	-	-	-	3,811,775	-	-	-	3,811,775
Total deferred outflows of resources	35,477,186	-	-	-	35,477,186	-	-	-	35,477,186
Total assets and deferred outflows of resources	\$ 1,015,319,606	\$ 2,222,677	\$ 28,714,067	\$ 9,521,959	\$ 1,055,778,309	\$ 62,035,092	\$ (850,008)	\$ 31,739,841	\$ 1,148,703,234

Denver Health and Hospital Authority

Consolidating Schedule – Statement of Net Position Information

December 31, 2018

	The Authority								
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	601 Broadway Inc.	CCPPS	550 Acoma Inc.	Total
Liabilities, Deferred Inflows of Resources and Net Position									
Current Liabilities									
Current maturities of bonds payable	\$ 9,127,846	\$ -	\$ -	\$ -	\$ 9,127,846	\$ 1,669,999	\$ -	\$ -	\$ 10,797,845
Current maturities of capital leases	428,003	-	-	-	428,003	-	-	-	428,003
Current maturities of notes payable	4,581,197	-	-	-	4,581,197	-	-	-	4,581,197
Current maturities of program support liability	6,960,000	-	-	-	6,960,000	-	-	-	6,960,000
Medical malpractice liability	5,036,063	-	-	-	5,036,063	-	-	-	5,036,063
Accounts payable and accrued expenses	65,130,173	-	1,511,545	24,627	66,666,345	151,674	8,380	886,952	67,713,351
Accrued salaries, wages and employee benefits	25,190,937	-	-	-	25,190,937	-	-	-	25,190,937
Accrued compensated absences	27,974,852	-	-	-	27,974,852	-	-	-	27,974,852
Unearned revenue	18,518,255	-	108,796	5,109,355	23,736,406	-	-	-	23,736,406
Derivative interest rate swap liability	1,075,643	-	-	-	1,075,643	-	-	-	1,075,643
Accrued claims	2,144,000	-	-	-	2,144,000	-	-	-	2,144,000
Total current liabilities	166,166,969	-	1,620,341	5,133,982	172,921,292	1,821,673	8,380	886,952	175,638,297
Long-term Liabilities									
Long-term portion of liability for estimated third-party settlements	18,734,258	-	-	-	18,734,258	-	-	-	18,734,258
Long-term portion of compensated absences	136,581	-	-	-	136,581	-	-	-	136,581
Bonds payable, less current maturities	258,349,225	-	-	-	258,349,225	-	-	-	258,349,225
Notes payable	11,184,912	-	-	-	11,184,912	44,486,362	-	40,794,422	96,465,696
Derivative interest rate swap liability	8,925,380	-	-	-	8,925,380	-	-	-	8,925,380
Program support liability	22,047,755	-	-	-	22,047,755	-	-	-	22,047,755
Net pension liability	105,588,100	-	-	-	105,588,100	-	-	-	105,588,100
Postemployment benefits	23,294,540	-	-	-	23,294,540	-	-	-	23,294,540
Total long-term liabilities	448,260,751	-	-	-	448,260,751	44,486,362	-	40,794,422	533,541,535
Total liabilities	614,427,720	-	1,620,341	5,133,982	621,182,043	46,308,035	8,380	41,681,374	709,179,832
Deferred Inflows of Resources									
Deferred inflows of resources related to pension benefits	17,701,465	-	-	-	17,701,465	-	-	-	17,701,465
Deferred inflows of resources related to other postemployment benefits	781,380	-	-	-	781,380	-	-	-	781,380
Total deferred inflows of resources	18,482,845	-	-	-	18,482,845	-	-	-	18,482,845
Total liabilities and deferred inflows of resources	632,910,565	-	1,620,341	5,133,982	639,664,888	46,308,035	8,380	41,681,374	727,662,677
Net Position									
Net investment in capital assets	170,184,866	1,191,742	96,727	(939)	171,472,396	-	-	-	171,472,396
Unrestricted	212,224,175	1,030,935	26,996,999	4,388,916	244,641,025	15,727,057	(858,388)	(9,941,533)	249,568,161
Total net position	382,409,041	2,222,677	27,093,726	4,387,977	416,113,421	15,727,057	(858,388)	(9,941,533)	421,040,557
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,015,319,606</u>	<u>\$ 2,222,677</u>	<u>\$ 28,714,067</u>	<u>\$ 9,521,959</u>	<u>\$ 1,055,778,309</u>	<u>\$ 62,035,092</u>	<u>\$ (850,008)</u>	<u>\$ 31,739,841</u>	<u>\$ 1,148,703,234</u>

Denver Health and Hospital Authority

Consolidating Schedule – Statement of Net Position Information

December 31, 2017

	The Authority									
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	Total	
Assets and Deferred Outflows of Resources										
Current Assets										
Cash and cash equivalents	\$ 46,711,577	\$ -	\$ -	\$ -	\$ 46,711,577	\$ -	\$ -	\$ 674,065	\$ 47,385,642	
Restricted cash and cash equivalents	-	-	-	-	-	-	1,070	-	1,070	
Patient accounts receivable, net	63,703,796	-	-	-	63,703,796	-	-	-	63,703,796	
Due from other governmental entities	13,013,835	229,407	-	12,989,324	26,232,566	-	-	-	26,232,566	
Due from City and County of Denver	4,118,017	3,684,338	8,075	-	7,810,430	-	-	-	7,810,430	
Other receivables	12,402,023	123,711	4,032,625	4,372,556	20,930,915	-	-	-	20,930,915	
Interest receivable	2,029,061	-	-	-	2,029,061	-	-	-	2,029,061	
Due from (to) and investment in discretely presented component units	(7,217,506)	(4,765,514)	24,283,657	(7,749,545)	4,551,092	-	84,315	(759,959)	3,875,448	
Inventories	10,483,234	-	-	-	10,483,234	-	-	-	10,483,234	
Prepaid expenses and other assets	9,021,565	-	175,502	30,779	9,227,846	-	-	-	9,227,846	
Total current assets	154,265,602	(728,058)	28,499,859	9,643,114	191,680,517	-	85,385	(85,894)	191,680,008	
Noncurrent Assets										
Notes receivable	15,432,000	-	-	-	15,432,000	-	-	-	15,432,000	
Estimated third-party payor settlements receivable	5,561,710	-	-	-	5,561,710	-	-	-	5,561,710	
Equity interest in joint venture	1,225,500	-	-	-	1,225,500	-	-	-	1,225,500	
Restricted investments	21,668,767	-	-	-	21,668,767	-	-	-	21,668,767	
Capital assets, net of accumulated depreciation	436,262,400	1,422,997	443,767	-	438,129,164	-	63,155,387	-	501,284,551	
Long-term investments	267,378,285	-	-	-	267,378,285	-	-	-	267,378,285	
Board-designated investments	36,500,000	-	-	-	36,500,000	-	-	-	36,500,000	
Other long-term assets	12,959	1,577,392	-	-	1,590,351	-	559,883	-	2,150,234	
Total noncurrent assets	784,041,621	3,000,389	443,767	-	787,485,777	-	63,715,270	-	851,201,047	
Total assets	938,307,223	2,272,331	28,943,626	9,643,114	979,166,294	-	63,800,655	(85,894)	1,042,881,055	
Deferred Outflows of Resources										
Accumulated change in fair value of hedging derivatives	12,394,299	-	-	-	12,394,299	-	-	-	12,394,299	
Deferred outflows of resources related to pension benefits	25,666,403	-	-	-	25,666,403	-	-	-	25,666,403	
Deferred outflow - acquisitions	329,667	-	-	-	329,667	-	-	-	329,667	
Loss on refunding of debt	4,111,625	-	-	-	4,111,625	-	-	-	4,111,625	
Total deferred outflows of resources	42,501,994	-	-	-	42,501,994	-	-	-	42,501,994	
Total assets and deferred outflows of resources	\$ 980,809,217	\$ 2,272,331	\$ 28,943,626	\$ 9,643,114	\$ 1,021,668,288	\$ -	\$ 63,800,655	\$ (85,894)	\$ 1,085,383,049	

Denver Health and Hospital Authority

Consolidating Schedule – Statement of Net Position Information

December 31, 2017

	The Authority					DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority				
Liabilities, Deferred Inflows of Resources and Net Position									
Current Liabilities									
Current maturities of bonds payable	\$ 7,085,000	\$ -	\$ -	\$ -	\$ 7,085,000	\$ -	\$ 1,684,636	\$ -	\$ 8,769,636
Current maturities of capital leases	375,576	-	-	-	375,576	-	-	-	375,576
Current maturities of notes payable	4,551,429	-	-	-	4,551,429	-	-	-	4,551,429
Current maturities of program support liability	6,288,000	-	-	-	6,288,000	-	-	-	6,288,000
Medical malpractice liability	4,580,262	-	-	-	4,580,262	-	-	-	4,580,262
Accounts payable and accrued expenses	48,711,338	-	1,450,581	24,627	50,186,546	-	249,379	33,513	50,469,438
Accrued salaries, wages and employee benefits	37,278,563	-	-	-	37,278,563	-	-	-	37,278,563
Accrued compensated absences	28,966,549	-	-	-	28,966,549	-	-	-	28,966,549
Unearned revenue	16,213,314	-	93,261	5,193,793	21,500,368	-	-	-	21,500,368
Derivative interest rate swap liability	1,500,183	-	-	-	1,500,183	-	-	-	1,500,183
Accrued claims	10,905,000	-	-	-	10,905,000	-	-	-	10,905,000
Total current liabilities	166,455,214	-	1,543,842	5,218,420	173,217,476	-	1,934,015	33,513	175,185,004
Long-term Liabilities									
Long-term portion of liability for estimated third-party settlements	40,896,679	-	-	-	40,896,679	-	-	-	40,896,679
Long-term portion of compensated absences	137,992	-	-	-	137,992	-	-	-	137,992
Bonds payable, less current maturities	266,222,944	-	-	-	266,222,944	-	-	-	266,222,944
Capital lease obligations, less current maturities	428,003	-	-	-	428,003	-	-	-	428,003
Notes payable	10,506,707	-	-	-	10,506,707	-	45,663,338	-	56,170,045
Derivative interest rate swap liability	10,898,971	-	-	-	10,898,971	-	-	-	10,898,971
Program support liability	30,043,381	-	-	-	30,043,381	-	-	-	30,043,381
Net pension liability	120,035,324	-	-	-	120,035,324	-	-	-	120,035,324
Postemployment benefits	7,574,255	-	-	-	7,574,255	-	-	-	7,574,255
Total long-term liabilities	486,744,256	-	-	-	486,744,256	-	45,663,338	-	532,407,594
Total liabilities	653,199,470	-	1,543,842	5,218,420	659,961,732	-	47,597,353	33,513	707,592,598
Deferred Inflows of Resources									
Deferred inflows of resources related to pension benefits	5,807,121	-	-	-	5,807,121	-	-	-	5,807,121
Total deferred inflows of resources	5,807,121	-	-	-	5,807,121	-	-	-	5,807,121
Total liabilities and deferred inflows of resources	659,006,591	-	1,543,842	5,218,420	665,768,853	-	47,597,353	33,513	713,399,719
Net Position									
Net investment in capital assets	158,650,696	1,422,997	443,767	-	160,517,460	-	-	-	160,517,460
Unrestricted	163,151,930	849,334	26,956,017	4,424,694	195,381,975	-	16,203,302	(119,407)	211,465,870
Total net position	321,802,626	2,272,331	27,399,784	4,424,694	355,899,435	-	16,203,302	(119,407)	371,983,330
Total liabilities, deferred inflows of resources and net position	\$ 980,809,217	\$ 2,272,331	\$ 28,943,626	\$ 9,643,114	\$ 1,021,668,288	\$ -	\$ 63,800,655	\$ (85,894)	\$ 1,085,383,049

Denver Health and Hospital Authority

Consolidating Schedule – Revenue and Expenses Information

Years Ended December 31, 2018

	The Authority					601 Broadway Inc.	CCPPS	550 Acoma Inc.	Total
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority				
Operating Revenues									
Net patient service revenue	\$ 641,620,040	\$ 2,774,467	\$ 3,046	\$ -	\$ 644,397,553	\$ -	\$ -	\$ -	\$ 644,397,553
Capitation earned net of reinsurance expense	136,653,112	-	-	-	136,653,112	-	-	-	136,653,112
Medicaid disproportionate share and other safety net reimbursement	148,941,660	-	-	-	148,941,660	-	-	-	148,941,660
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300	-	-	-	30,777,300
Federal, state and other grants	356,184	2,014,345	-	61,743,877	64,114,406	-	-	-	64,114,406
City and County of Denver purchased services	5,929,685	19,169,780	88,825	-	25,188,290	-	-	-	25,188,290
Poison and drug center contracts	-	-	25,349,639	-	25,349,639	-	-	-	25,349,639
Other operating revenue	42,499,733	986,886	-	(36,768)	43,449,851	1	583,095	-	44,032,947
Total operating revenues	1,006,777,714	24,945,478	25,441,510	61,707,109	1,118,871,811	1	583,095	-	1,119,454,907
Operating Expenses									
Salaries and benefits	564,987,893	22,485,622	13,878,137	45,677,759	647,029,411	-	-	-	647,029,411
Contracted services and nonmedical supplies	165,201,804	1,601,889	11,561,134	14,235,830	192,600,657	(3,462,045)	1,322,076	-	190,460,688
Medical supplies and pharmaceuticals	130,037,097	875,055	104	1,478,426	132,390,682	-	-	-	132,390,682
Managed care outside provider claims	38,830,457	-	-	-	38,830,457	-	-	-	38,830,457
Depreciation and amortization	51,768,655	231,255	317,137	939	52,317,986	2,169,678	-	-	54,487,664
Total operating expenses	950,825,906	25,193,821	25,756,512	61,392,954	1,063,169,193	(1,292,367)	1,322,076	-	1,063,198,902
Operating income (loss)	55,951,808	(248,343)	(315,002)	314,155	55,702,618	1,292,368	(738,981)	-	56,256,005
Nonoperating Revenues (Expenses)									
Increase in equity in joint venture	2,800	-	-	-	2,800	-	-	-	2,800
Interdepartmental transfers	(43,700)	34,621	8,944	135	-	-	-	-	-
Bond issuance costs	(25,015)	-	-	-	(25,015)	-	-	(563,549)	(588,564)
Grant funded capital expenditures	351,007	-	-	(351,007)	-	-	-	-	-
Interest income	11,289,240	-	-	-	11,289,240	22	-	181,129	11,470,391
Interest expense	(13,122,304)	-	-	-	(13,122,304)	(1,768,635)	-	(309,237)	(15,200,176)
Net decrease in fair value of investments	(14,424,574)	-	-	-	(14,424,574)	-	-	-	(14,424,574)
Gain on disposition of capital assets	10,572	-	-	-	10,572	-	-	-	10,572
Total nonoperating revenues (expenses)	(15,961,974)	34,621	8,944	(350,872)	(16,269,281)	(1,768,613)	-	(691,657)	(18,729,551)
Income (loss) before capital contributions	39,989,834	(213,722)	(306,058)	(36,717)	39,433,337	(476,245)	(738,981)	(691,657)	37,526,454
Contributions Restricted for Capital Assets	34,201,080	164,068	-	-	34,365,148	-	-	(9,249,876)	25,115,272
Increase (decrease) in net position	\$ 74,190,914	\$ (49,654)	\$ (306,058)	\$ (36,717)	\$ 73,798,485	\$ (476,245)	\$ (738,981)	\$ (9,941,533)	\$ 62,641,726

Denver Health and Hospital Authority

Consolidating Schedule – Revenue and Expenses Information

Years Ended December 31, 2017

	The Authority									
	Denver Health Medical Center	City Fund	RMPDC	Restricted Fund	Total Authority	DHHA Pavilion M, Inc.	601 Broadway Inc.	CCPPS	Total	
Operating Revenues										
Net patient service revenue	\$ 540,817,367	\$ 4,557,744	\$ 5,848	\$ -	\$ 545,380,959	\$ -	\$ -	\$ -	\$ 545,380,959	
Capitation earned net of reinsurance expense	218,010,773	-	-	-	218,010,773	-	-	-	218,010,773	
Medicaid disproportionate share and other safety net reimbursement	114,752,531	-	-	-	114,752,531	-	-	-	114,752,531	
City and County of Denver payment for patient care services	30,777,300	-	-	-	30,777,300	-	-	-	30,777,300	
Federal, state and other grants	384,398	2,520,557	-	63,144,809	66,049,764	-	-	-	66,049,764	
City and County of Denver purchased services	6,353,834	18,326,006	96,899	-	24,776,739	-	-	-	24,776,739	
Poison and drug center contracts	-	-	22,852,467	-	22,852,467	-	-	-	22,852,467	
Other operating revenue	31,697,070	1,409,675	-	(77,741)	33,029,004	841,137	-	416,802	34,286,943	
Total operating revenues	942,793,273	26,813,982	22,955,214	63,067,068	1,055,629,537	841,137	-	416,802	1,056,887,476	
Operating Expenses										
Salaries and benefits	546,404,322	23,353,876	12,630,775	45,637,552	628,026,525	-	-	-	628,026,525	
Contracted services and nonmedical supplies	168,993,294	2,235,154	8,018,851	16,219,529	195,466,828	56,014	(2,692,011)	591,169	193,422,000	
Medical supplies and pharmaceuticals	122,408,157	1,626,721	78	1,218,332	125,253,288	-	-	-	125,253,288	
Managed care outside provider claims	65,258,014	-	-	-	65,258,014	-	-	-	65,258,014	
Depreciation and amortization	41,754,310	433,030	317,195	-	42,504,535	1,065,674	947,471	-	44,517,680	
Total operating expenses	944,818,097	27,648,781	20,966,899	63,075,413	1,056,509,190	1,121,688	(1,744,540)	591,169	1,056,477,507	
Operating income (loss)	(2,024,824)	(834,799)	1,988,315	(8,345)	(879,653)	(280,551)	1,744,540	(174,367)	409,969	
Nonoperating Revenues (Expenses)										
Increase in equity in joint venture	124,000	-	-	-	124,000	-	-	-	124,000	
Interdepartmental transfers	(460,846)	286,866	48,858	125,122	-	-	-	-	-	
Bond issuance costs	(682,046)	-	-	-	(682,046)	-	-	-	(682,046)	
Interest income	9,632,689	-	-	-	9,632,689	86	268	-	9,633,043	
Interest expense	(14,118,378)	-	-	-	(14,118,378)	(237,069)	(266)	-	(14,355,713)	
Gain (loss) on forgiveness of note payable/receivable	(29,033,152)	-	-	-	(29,033,152)	37,168,635	-	-	8,135,483	
Gain (loss) on dissolution of Pav M Inc	27,551,503	-	-	-	27,551,503	(27,551,503)	-	-	-	
Grant funded capital expenditures	194,467	-	-	(194,467)	-	-	-	-	-	
Net increase in fair value of investments	9,287,858	-	-	-	9,287,858	-	-	-	9,287,858	
Gain on disposition of capital assets	50,857	-	-	-	50,857	-	-	-	50,857	
Total nonoperating revenues (expenses)	2,546,952	286,866	48,858	(69,345)	2,813,331	9,380,149	2	-	12,193,482	
Income (loss) before capital contributions	522,128	(547,933)	2,037,173	(77,690)	1,933,678	9,099,598	1,744,542	(174,367)	12,603,451	
Contributions Restricted for Capital Assets	1,325,660	190,382	-	-	1,516,042	-	-	-	1,516,042	
Increase (decrease) in net position	\$ 1,847,788	\$ (357,551)	\$ 2,037,173	\$ (77,690)	\$ 3,449,720	\$ 9,099,598	\$ 1,744,542	\$ (174,367)	\$ 14,119,493	

Denver Health and Hospital Authority
Supplementary Budget to Actual Information
Years Ended December 31, 2018

	Actual	Budget	Variance- Favorable (Unfavorable)
Operating Revenues			
Net patient service revenue	\$ 644,397,553	\$ 627,288,356	\$ 17,109,197
Capitation earned net of reinsurance expense	136,653,112	158,447,216	(21,794,104)
Medicaid disproportionate share and other safety net reimbursement	148,941,660	119,037,985	29,903,675
City and County of Denver payment for patient care services	30,777,300	30,777,300	-
Federal, state and other grants	64,114,406	64,750,551	(636,145)
City and County of Denver purchased services	25,188,290	26,308,164	(1,119,874)
Poison and drug center contracts	25,349,639	24,057,747	1,291,892
Other operating revenue	44,032,947	31,973,373	12,059,574
Total operating revenues	<u>1,119,454,907</u>	<u>1,082,640,692</u>	<u>36,814,215</u>
Operating Expenses			
Salaries and benefits	647,029,411	647,528,313	498,902
Contracted services and nonmedical supplies	190,460,688	187,706,316	(2,754,372)
Medical supplies and pharmaceuticals	132,390,682	124,874,834	(7,515,848)
Managed care outside provider claims	38,830,457	46,155,123	7,324,666
Depreciation and amortization	54,487,664	49,440,286	(5,047,378)
Total operating expenses	<u>1,063,198,902</u>	<u>1,055,704,872</u>	<u>(7,494,030)</u>
Operating income	<u>56,256,005</u>	<u>26,935,820</u>	<u>29,320,185</u>
Nonoperating Revenues (Expenses)			
Increase in equity in joint venture	2,800		2,800
Bond issuance cost	(588,564)		(588,564)
Interest income	11,470,391	7,427,892	4,042,499
Interest expense	(15,200,176)	(15,595,044)	394,868
Total nonoperating revenues (expenses)	<u>(4,315,549)</u>	<u>(8,167,152)</u>	<u>3,851,603</u>
Reconciliation to Income Before Capital Contributions			
Add:			
Net decrease in fair value of investments	(14,424,574)	-	(14,424,574)
Gain on disposition of capital assets	10,572	-	10,572
Total reconciling items	<u>(14,414,002)</u>	<u>-</u>	<u>(14,414,002)</u>
Income Before Capital Contributions	<u><u>\$ 37,526,454</u></u>	<u><u>\$ 18,768,668</u></u>	<u><u>\$ 18,757,786</u></u>

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on an Audit
of the Financial Statements Performed in Accordance with
*Government Auditing Standards***

Board of Directors
Denver Health and Hospital Authority
Denver, Colorado

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Denver Health and Hospital Authority (the Authority) and its aggregate discretely presented component units, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated March 20, 2019. Our report contained an emphasis of matter paragraph for a change in accounting principle. The financial statements of Denver Health Medical Plan, Inc. and DHHA Southwest Clinic, Inc., are discretely presented component units, and DHHA Pavilion M, Inc., 601 Broadway, Inc., Canadian Consumer Product and Pharmaceutical Safety, Inc. and 550 Acoma Inc., which are blended component units, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Directors
Denver Health and Hospital Authority

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Denver, Colorado
March 20, 2019